

1 **HUD Handbook 4000.1**
2 **FHA Single Family Housing Policy Handbook**

3
4 **USER QUICK GUIDE**

5 Below are some helpful tips for using HUD Handbook 4000.1, *FHA Single Family Housing*
6 *Policy Handbook* (Handbook 4000.1):

- 7 1. Handbook 4000.1 is organized in the sequence of a life cycle of a mortgage.
8 2. In this draft section, yellow highlighting on heading titles indicates the entire content
9 below the heading title is proposed new content for HECM. Yellow highlighted text in
10 section II.D indicates proposed updates to published Handbook 4000.1.
11 3. Capitalization of words in Handbook 4000.1 generally denotes terms that are defined in
12 the Glossary.
13 4. Hyperlinks are included in Handbook 4000.1 for easy navigation to a referenced section.
14 Hyperlinks are indicated by blue, underlined text. Users can jump to the hyperlinked
15 reference by clicking on the text. To navigate back to the hyperlink last used, click
16 ALT+←.

FHA Single Family Housing Policy Handbook
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1 **I. DOING BUSINESS WITH FHA**

2 **II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT**

3 **A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

4 **B. TITLE II INSURED HOUSING PROGRAMS HOME EQUITY CONVERSION**
5 **MORTGAGES**

6 The Title II Insured Housing Programs Home Equity Conversion Mortgages (HECM)
7 Origination through Post-Closing/Endorsement section in this *FHA Single Family Housing*
8 *Policy Handbook* (Handbook 4000.1) provides the origination, property underwriting, financial
9 assessment, closing, post-closing, and endorsement standards and procedures applicable to
10 HECMs insured under Section 255 of Title II of the National Housing Act.

11 The Mortgagee must fully comply with all of the following standards and procedures in
12 originating, underwriting the Property, conducting the financial assessment, and closing for
13 obtaining Federal Housing Administration (FHA) mortgage insurance on all HECM transactions.

14 If there are any exceptions or program-specific standards or procedures that differ from those set
15 forth below, the exceptions or alternative [program or product](#) specific standards and procedures
16 are explicitly stated in Section 8. Terms and acronyms used in this Handbook 4000.1 have their
17 meanings defined in the [Glossary and Acronyms](#) sections and in the specific section of the
18 Handbook 4000.1 in which the definitions are located.

19 **1. Origination/Counseling Requirements**

20 A Home Equity Conversion Mortgage (HECM) refers to a non-recourse, reverse mortgage that
21 allows a HECM Borrower (Borrower) access to equity secured by the Principal Residence with
22 no corresponding monthly mortgage payment.

23 **a. Required Referral for HECM Counseling**

24 **i. Definition**

25 Participating Agency refers to all housing counseling and intermediary organizations
26 participating in HUD's Housing Counseling program, including HUD-approved agencies,
27 and affiliates and branches of HUD-approved intermediaries, HUD-approved multi-state
28 organizations, and state housing finance agencies.

29 **ii. Standard**

30 The Mortgagee must provide each prospective Borrower with a list of the names,
31 addresses, and telephone numbers of the Participating Agencies eligible to provide
32 HECM counseling that includes:

II. Origination through Post-Closing/Endorsement
B. Title II Insured Housing Programs Home Equity Conversion Mortgages
1. Origination/Counseling Requirements

- all HUD-approved intermediaries listed on the [HUD Intermediaries Providing HECM Origination Counseling Nationwide](#);
- Participating Agencies that provide telephone counseling; and
- at least five Participating Agencies located in the prospective Borrower’s state or locality, including at least one local agency within a reasonable driving distance of the prospective Borrower’s residence for [face-to-face counseling](#).

In cases where HECM counseling is not available in the local area or state, Mortgagees must determine which Participating Agencies are most conveniently located to the Borrower and provide a listing of at least five Participating Agencies.

iii. Required Documentation

The Mortgagee must enter the date the prospective Borrower received the list of Participating Agencies in FHA Connection (FHAC) within one business day of requesting the case number.

b. Restrictions on Processing of Applications Before Completion of HECM Counseling

i. Definition

A Third-Party Originator (TPO) is an Entity that originates FHA Mortgages for an FHA-approved Mortgagee acting as its sponsor. A TPO may be an FHA-approved Mortgagee or a non-FHA-approved Entity.

ii. Standard

The Mortgagee and/or sponsored TPO (see section I.A.5.a.v Sponsor/Sponsored Third-Party Originator Relationship in Handbook 4000.1) may perform only the functions listed below before all required HECM counseling has been completed by all individuals required to receive counseling:

- accept the loan application and provide required disclosures;
- lock in the [Expected Average Mortgage Interest Rate](#) (Expected Rate);
- explain the HECM program to the Borrower;
- discuss whether the Borrower is eligible for HECM financing;
- provide information regarding the fees and charges associated with the HECM product;
- describe the potential financial implications of a HECM for the Borrower;
- provide the Borrower with sample copies of the HECM Note, Mortgage, and loan agreement;
- order preliminary title report;
- order Automated Valuation Model (AVM); or
- order credit report to perform a preliminary credit review of the Borrower’s financial obligations.

II. Origination through Post-Closing/Endorsement
B. Title II Insured Housing Programs Home Equity Conversion Mortgages
1. Origination/Counseling Requirements

1 The Mortgagee and sponsored TPO may not collect any fee or the Borrower's banking
2 account and credit card information before closing, or in connection with any function
3 permitted above if the function is performed before receipt of a signed and dated form
4 [HUD-92902](#), *Certificate of HECM Counseling*, for each individual required to receive
5 counseling.

6 **c. Individuals Required to Receive HECM Counseling**

7 **i. Definitions**

8 A Non-Borrowing Spouse (NBS) refers to the spouse of a HECM Borrower who is also
9 not a Borrower.

10 Non-Borrowing Owner refers to someone who is not the spouse of a Borrower and is on
11 the title to the Property that will serve as collateral for the HECM.

12 **ii. Standard**

13 The Mortgagee must ensure all Borrowers, NBSs, and Non-Borrowing Owners have
14 received HECM counseling from a counselor on the HECM Roster.

15 For any Borrower, NBS, or Non-Borrowing Owner lacking legal competency, HECM
16 counseling must be completed by:

- 17 • the person holding a Power of Attorney (POA); or
- 18 • a court-appointed conservator or guardian.

19 For additional information on HECM Counseling see [HUD Handbook 7610.1](#).

20 **iii. Required Documentation**

21 The Mortgagee must obtain a copy of the *Certificate of HECM Counseling* signed and
22 dated by each individual required to receive counseling and the HECM counselor. The
23 Mortgagee and sponsored TPOs may only request changes to the *Certificate of HECM*
24 *Counseling* up until the HECM is endorsed.

25 The Mortgagee must enter the HECM counseling certificate identification number in
26 FHAC. When there are multiple certificates, the Mortgagee must use the HECM
27 counseling certificate identification number of the last person counseled.

28 **d. Counseling Prohibited Practices**

29 **i. Definition**

30 Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees,
31 Third-Party Originators (TPO), or other parties with an interest in the transaction.

1 **ii. Prevention of Undue Influence in HECM Counseling**

2 Interested Parties to the transaction must not:

- 3 • be present during HECM counseling; or
4 • provide Borrowers with advance copies of the HECM counselor’s review
5 questions with answers.

6 **iii. Prohibited Steering and Payment of HECM Counseling Fees**

7 Interested Parties to the transaction must not steer, direct, recommend, or otherwise
8 encourage any individual to seek the services of any one particular Participating Agency
9 or HECM counselor.

10 The Mortgagee must not refer Borrowers to any one particular Participating Agency or
11 HECM counselor, discuss a Borrower’s personal information, including the timing or
12 scheduling of the counseling; or request information regarding the topics covered in a
13 counseling session.

14 The Mortgagee may not pay a Participating Agency or HECM Counselor, directly or
15 indirectly, for HECM counseling services, through either a lump-sum payment or on a
16 case-by-case basis.

17 **2. Origination/Processing**

18 **a. Applications and Disclosures**

19 The Mortgagee must obtain a completed [Fannie Mae Form 1009](#), *Residential Loan*
20 *Application for Reverse Mortgages (RLARM)*, from the Borrower and must capture
21 additional required information using Parts IV, V, and VI of Fannie Mae Form 1003,
22 *Uniform Residential Loan Application (URLA)*, or an alternative form that captures the same
23 information. In addition, the Mortgagee must provide all required federal and state
24 disclosures to begin the origination process. Regardless of the form used, Mortgagees must
25 ensure that the Borrower certifies to the accuracy and completeness of the financial
26 information. The Mortgagee is responsible for using the most recent version of all forms as
27 of the date of completion of the form.

28 **i. Contents of the HECM Application Package**

29 The Mortgagee must maintain all information and documentation that is relevant to its
30 approval decision in the HECM file. All information and documentation that is required
31 in this Handbook 4000.1, and any incidental information or documentation related to
32 those requirements, is relevant to the Mortgagee’s approval decision.

33 If after obtaining all documentation required below, the Mortgagee has reason to believe
34 it needs additional support for the approval decision, the Mortgagee must obtain

1 additional explanation and documentation, consistent with information in the HECM file
2 to clarify or supplement the information and documentation submitted by the Borrower.

3 **(A) General Requirements**

4 **(1) Maximum Age of HECM Documents**

5 **(a) General Document Age**

6 Documents used in the origination and financial assessment of a HECM may
7 not be more than 120 Days old at the Disbursement Date. Documents whose
8 validity for financial assessment purposes is not affected by the passage of
9 time, such as divorce decrees or tax returns, may be more than 120 Days old
10 at the Disbursement Date.

11 For purposes of counting Days for periods provided in the Title II Insured
12 Housing Programs Home Equity Conversion Mortgages section of Handbook
13 4000.1, day one is the Day after the effective or issue date of the document,
14 whichever is later.

15 **(b) Age of Certificate of HECM Counseling**

16 The [Certificate of HECM Counseling](#) remains valid for a period of 180 Days
17 from the date the last Borrower, NBS, Non-Borrowing Owner, or legal
18 representative who is required to attend counseling signs a certificate for
19 purposes of obtaining a case number. For additional information on HECM
20 Counseling see [HUD Handbook 7610.1](#).

21 **(c) Appraisal Validity**

22 **(i) Initial Appraisal Validity**

23 The 120 Day validity period for an appraisal (see [Ordering Appraisals](#))
24 may be extended for 30 Days at the option of the Mortgagee if (1) the
25 Mortgagee approved the Borrower or HUD issued the *Firm Commitment*
26 before the expiration of the original appraisal; or (2) for HECM for
27 Purchase program applications, the Borrower signed a valid sales contract
28 prior to the expiration date of the appraisal.

29 **(ii) Appraisal Update**

30 An appraisal update must be performed before the initial appraisal, with
31 no extension, has expired. Where the initial appraisal is subsequently
32 updated, the updated appraisal is valid for a period of 240 Days after the
33 effective date of the initial appraisal report that is being updated.

1 **(2) Handling of Documents**

2 Mortgagees must not accept or use documents relating to the employment,
3 income, assets, or credit of Borrowers that have been handled by, or transmitted
4 from or through the equipment of unknown parties, or Interested Parties.
5 Mortgagees may not accept or use any Third Party Verifications (TPV) that have
6 been handled by, or transmitted from or through any Interested Party, or the
7 Borrower.

8 Mortgagees may accept a copy of the signed and dated form, the *Certificate of*
9 *HECM Counseling*, from the HECM counselor or Borrower that has been faxed,
10 mailed, electronically transmitted, or otherwise provided.

11 **Exception for Mortgagees and TPOs**

12 The Mortgagee and TPO are permitted to handle documents relating to the
13 employment, income, assets or credit of Borrowers.

14 **(a) Information Sent to the Mortgagee Electronically**

15 The Mortgagee must authenticate all documents received electronically by
16 examining the source identifiers (e.g., the fax banner header or the sender's
17 email address) or contacting the source of the document by telephone to verify
18 the document's validity. The Mortgagee must document the name and
19 telephone number of the individual with whom the Mortgagee verified the
20 validity of the document.

21 **(b) Information Obtained via Internet**

22 The Mortgagee must authenticate documents obtained from an internet
23 website and examine portions of printouts downloaded from the internet
24 including the Uniform Resource Locator (URL) address, as well as the date
25 and time the documents were printed. The Mortgagee must visit the URL or
26 the main website listed in the URL if the page is password protected, to verify
27 the website exists and print evidence documenting the Mortgagee's visit to the
28 URL and website.

29 Documentation obtained through the internet must contain the same
30 information as would be found in an original hard copy of the document.

31 **(c) Confidentiality Policy for Credit Information**

32 Mortgagees must not divulge sources of credit information, except as required
33 by a contract or by law. All personnel with access to credit information must
34 ensure that the use and disclosure of information from a credit report complies
35 with:

II. Origination through Post-Closing/Endorsement
B. Title II Insured Housing Programs Home Equity Conversion Mortgages
2. Origination/Processing

- the Fair Housing Act, 42 U.S.C. 3601 et seq.;
- the Fair Credit Reporting Act, Public Law 91-508;
- the Right to Privacy Act, Public Law 93-579;
- the Financial Privacy Act, Public Law 95-630; and
- the Equal Credit Opportunity Act, Public Law 94-239 and [12 CFR Part 202](#).

(3) Signature Requirements for all Application Forms

(a) Borrowers with Legal Competency

The Borrower must sign and date the initial and final [Fannie Mae Form 1009, RLARM](#). The Borrower must sign and date page two of the initial [form HUD-92900-A, HUD Addendum to Uniform Residential Loan Application](#), and sign and date the complete final form HUD-92900-A.

The Mortgagee may accept any application form executed by a person holding a durable POA specifically designed to survive incapacity and avoid the need for court proceedings, provided the attorney-in-fact has specific authority to obligate the Borrower and has received HECM counseling by a Participating Agency.

(b) Borrowers Lacking Legal Competency

The Borrower may not sign and date the initial and final Fannie Mae Form 1009, *RLARM*. The Borrower may not sign and date page two of the initial form HUD-92900-A, *HUD Addendum to Uniform Residential Loan Application*, nor sign and date the complete final form HUD-92900-A.

The Mortgagee may accept any application form executed by:

- a court-appointed conservator or guardian with documented authority to obligate the Borrower; or
- a person holding a durable POA specifically designed to survive incapacity and avoid the need for court proceedings, provided the attorney-in-fact has specific authority to obligate the Borrower and has received HECM counseling by a Participating Agency.

Refer to [Use of Power of Attorney at Closing](#) for further guidance.

Refer to [Use of Court-Appointed Conservator or Guardian](#) for further guidance.

Prohibition on Documents Signed in Blank

Mortgagees are not permitted to require signatories to sign documents in blank, incomplete documents, or blank sheets of paper.

1 **(4) Policy on Use of Electronic Signatures**

2 **(a) Definition**

3 An Electronic Signature refers to any electronic sound, symbol, or process
4 attached to or logically associated with a contract or record and executed or
5 adopted by a person with the intent to sign the record. FHA does not accept an
6 electronic signature that is solely voice or audio. Digital signatures are a
7 subset of electronic signatures.

8 **(b) Use of Electronic Signatures**

9 An electronic signature conducted in accordance with the Electronic Signature
10 Performance Standards (Performance Standards) is accepted on FHA
11 documents requiring signatures to be included in the case binder for mortgage
12 insurance, unless otherwise prohibited by law.

13 Electronic Signatures meeting the Performance Standards are treated as
14 equivalent to handwritten signatures.

15 **(c) Electronic Signature Performance Standards**

16 The Performance Standards are the set of guidelines that govern FHA
17 acceptance of an electronic signature. The use of electronic signatures is
18 voluntary. However, Mortgagees choosing to use electronic signatures must
19 fully comply with the Performance Standards.

20 **(i) The Electronic Signatures in Global and National Commerce Act**
21 **(E-SIGN Act) Compliance and Technology**

22 A Mortgagee’s electronic signature technology must comply with all
23 requirements of the E-SIGN Act, including those relating to disclosures,
24 consent, signature, presentation, delivery, retention, and any state law
25 applicable to the transaction.

26 **(ii) Third Party Documents**

27 Third Party Documents are those documents that are originated and signed
28 outside of the control of the Mortgagee, such as the sales contract. FHA
29 will accept electronic signatures on Third Party Documents included in the
30 case binder for mortgage insurance endorsement in accordance with the E-
31 SIGN Act and the Uniform Electronic Transactions Act (UETA). An
32 indication of the electronic signature and date must be clearly visible when
33 viewed electronically and in a paper copy of the electronically signed
34 document.

1 **(iii) Authorized Documents**

2 Authorized Documents refer to the documents on which FHA accepts
3 electronic signatures provided that the Mortgagee complies with the
4 Performance Standards:

- 5 • **Mortgage Insurance Endorsement Documents:** Electronic
6 signatures will be accepted on all documents requiring signatures
7 included in the HECM case binder for mortgage insurance except
8 the Note. FHA will not accept electronic signatures on HECM
9 Notes.
- 10 • **Servicing and Loss Mitigation Documentation:** Electronic
11 signatures will be accepted on any documents associated with
12 servicing or loss mitigation services for HECMs.
- 13 • **FHA Insurance Claim Documentation:** Electronic signatures
14 will be accepted on any documents associated with the filing of a
15 claim for FHA insurance benefits, including form [HUD-27011](#),
16 *Single Family Application for Insurance Benefits*.
- 17 • **HUD Real Estate Owned (REO) Documents:** Electronic
18 signatures will be accepted on the HUD REO Sales Contract and
19 related addenda.

20 **(iv) Associating an Electronic Signature with the Authorized**
21 **Document**

22 The Mortgagee must ensure that the process for electronically signing
23 authorized documents provides for the document to be presented to the
24 signatory before an electronic signature is obtained. The Mortgagee must
25 ensure that the electronic signature is attached to, or logically associated
26 with, the document that has been electronically signed.

27 **(v) Intent to Sign**

28 The Mortgagee must be able to prove that the signer certified that the
29 document is true, accurate, and correct at the time signed. Electronic
30 signatures are only valid under the E-SIGN Act if they are “executed or
31 adopted by a person with the intent to sign the record.” Establishing intent
32 includes:

- 33 • identifying the purpose for the Borrower signing the electronic
34 record;
- 35 • being reasonably certain that the Borrower knows which electronic
36 record is being signed; and
- 37 • providing notice to the Borrower that their electronic signature is
38 about to be applied to, or associated with, the electronic record.

II. Origination through Post-Closing/Endorsement
B. Title II Insured Housing Programs Home Equity Conversion Mortgages
2. Origination/Processing

1 Intent to use an electronic signature may be established by, but is not
2 limited to:

- 3 • an online dialog box or alert advising the Borrower that continuing
4 the process will result in an electronic signature;
- 5 • an online dialog box or alert indicating that an electronic signature
6 has just been created and giving the Borrower an opportunity to
7 confirm or cancel the signature; or
- 8 • a click-through agreement advising the Borrower that continuing
9 the process will result in an electronic signature.

10 **(vi) Single Use of Signature**

11 Mortgagees must require a separate action by the signer, evidencing intent
12 to sign, in each location where a signature or initials are to be applied.

13 This provision does not apply to documents signed by Mortgagee
14 employees or Mortgagee contractors provided the Mortgagee obtains the
15 consent of the individual for the use of their electronic signature. The
16 Mortgagee must document the employee's or contractor's consent.

17 **(vii) Authentication**

18 **Definition**

19 Authentication refers to the process used to confirm a signer's identity as a
20 party in a transaction.

21 **Standard for Authentication**

22 Before a Mortgagee submits the case for endorsement, the Mortgagee
23 must confirm the identity of the signer by authenticating data provided by
24 the signer with information maintained by an independent source.

25 Independent sources include, but are not limited to:

- 26 • national commercial credit bureaus;
- 27 • commercially available data sources or services;
- 28 • state motor vehicle agencies; or
- 29 • government databases.

30 The Mortgagee must verify a signer's name and date of birth, and either
31 their Social Security Number (SSN) or driver's license number.

1 **(viii) Attribution**

2 **Definition**

3 Attribution is the process of associating the identity of a signer with their
4 signature.

5 **Standard for Attribution**

6 The Mortgagee must maintain evidence sufficient to establish that the
7 electronic signature may be attributed to the individual purported to have
8 signed.

9 The Mortgagee must use one of the following methods, or combinations of
10 methods, to establish attribution:

- 11 • selection by or assignment to the individual of a Personal
12 Identification Number (PIN), password, or other shared secret, that
13 the individual uses as part of the signature process;
- 14 • delivery of a credential to the individual by a trusted third party,
15 used either to sign electronically or to prevent undetected alteration
16 after the electronic signature using another method;
- 17 • knowledge base authentication using “out of band/wallet”
18 information;
- 19 • measurement of some unique biometric attribute of the individual
20 and creation of a computer file that represents the measurement,
21 together with procedures to protect against disclosure of the
22 associated computer file to unauthorized parties; or
- 23 • public key cryptography.

24 **(ix) Credential Loss Management**

25 Mortgagees must have a system in place to ensure the security of all
26 issued credentials. One or a combination of the following loss
27 management controls is acceptable:

- 28 • maintaining the uniqueness of each combined identification code
29 and password, such that no two individuals have the same
30 combination of identification code and password;
- 31 • ensuring that identification code and password issuances are
32 periodically checked, recalled, or revised;
- 33 • following loss management procedures to electronically de-
34 authorize lost, stolen, missing, or otherwise compromised
35 identification code or password information, and to issue
36 temporary or permanent replacements using suitable, rigorous
37 controls;

II. Origination through Post-Closing/Endorsement
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- using transaction safeguards to prevent unauthorized use of passwords or identification codes; or
- detecting and reporting any attempts at unauthorized use of the password or identification code to the system security unit.

(d) Required Documentation and Integrity of Records

Mortgagees must ensure that they employ industry-standard encryption to protect the signer’s signature and the integrity of the documents to which it is affixed. Mortgagees must ensure that their systems will detect and record any tampering with the electronically signed documents. FHA will not accept documents that show evidence of tampering.

If changes to the document are made, the electronic process must be designed to provide an audit trail showing all alterations, the date and time they were made, and who made them.

The Mortgagee’s system must be designed so that the signed document is designated as the Authoritative Copy. The Authoritative Copy of an electronically signed document refers to the electronic record that is designated by the Mortgagee or Holder as the controlling reference copy.

(B) HECM Application and Initial Supporting Documentation

(1) RLARM and HUD Addendum to the URLA

Unless otherwise noted, [Fannie Mae Form 1009](#), *RLARM*, and form [HUD-92900-A](#), *HUD Addendum to URLA*, refer to both initial and final applications.

The Mortgagee must obtain the Borrower’s initial complete, signed [Fannie Mae Form 1009](#) and page two of form [HUD-92900-A](#) before processing the HECM application.

The loan originator identified on the *RLARM* must be the actual licensed loan originator regardless of whether the loan originator is employed by a sponsored TPO or the Mortgagee. The *RLARM* must contain the loan originator’s name, Nationwide Mortgage Licensing System and Registry (NMLS) identification number, telephone number, and signature.

(2) HECM Application Name Requirements

(a) Definition

Eligible Non-Borrowing Spouse (NBS) refers to an NBS who meets all Qualifying Attributes for a Deferral Period.

1 **(b) Standard**

2 All HECM applications must be executed in the legal names of all applicants.

3 All HECM applications must be executed in the name of one or more
4 individuals.

5 **(c) Required Documentation**

6 The Mortgagee must include a statement that it has verified the Borrower’s
7 and Eligible NBS’s identity prior to closing of the HECM.

8 **(C) Borrower and Eligible Non-Borrowing Spouse Authorizations**

9 **(1) Borrower’s and Eligible Non-Borrowing Spouse’s Authorization to**
10 **Verify Information**

11 **(a) Standard**

12 The Mortgagee must obtain the Borrower’s authorization to verify the
13 information needed to process the HECM application. The Mortgagee must
14 obtain an Eligible NBS’s consent and authorization where necessary to verify
15 specific information required to process the HECM application, including the
16 Eligible NBS’s consent for the Mortgagee to verify their SSN with the Social
17 Security Administration (SSA).

18 **(b) Required Documentation**

19 For each individual, Borrower, and Eligible NBS, authorization may be
20 accomplished through a blanket authorization form.

21 **(2) Form HUD-92900-A Part IV: Borrower and Non-Borrowing Spouse**
22 **Consent for Social Security Administration to Verify Social Security**
23 **Number**

24 The Mortgagee must obtain the Borrower’s and NBS’s signature on Part II of
25 form [HUD-92900-A](#) to verify the Borrower’s and NBS’s SSN with the SSA.
26 Mortgagees may attach an addendum signed by the Non-Borrowing Spouse to
27 form HUD-92900-A which includes the required language in Part III of form
28 HUD-92900-A.

29 **(3) Tax Verification Form or Equivalent**

30 The Mortgagee must obtain the Borrower’s signature on the appropriate Internal
31 Revenue Service (IRS) form to obtain tax returns directly from the IRS for all
32 credit-qualifying Mortgages at the time the final *RLARM* is executed.

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1 Where income from an Eligible NBS will be used as a [Compensating Factor](#) or to
2 reduce family size when determining if the Borrower meets the applicable
3 Residual Income standard, the Eligible NBS must also be required to sign the
4 appropriate IRS form to obtain tax returns directly from the IRS.

5 **(D) Borrower’s and Eligible Non-Borrowing Spouse’s Authorization for Use of**
6 **Information Protected under the Privacy Act**

7 **(1) Standard**

8 The Mortgagee must obtain the Borrower’s and [Eligible NBS’s](#) consent for use of
9 the Borrower’s information for any purpose relating to the origination, servicing,
10 loss mitigation, and disposition of the HECM or Property securing the HECM,
11 and relating to any insurance claim and ultimate resolution of such claims by the
12 Mortgagee and FHA.

13 **(2) Required Documentation**

14 The Mortgagee must obtain a signed statement from the Borrower and Eligible
15 NBS that clearly expresses their consent for the use of the Borrower’s and
16 Eligible NBS’s information as required above.

17 **ii. Disclosures and Legal Compliance**

18 The Mortgagee must provide or ensure the Borrower is provided the following
19 disclosures.

20 **(A) HECM Required Disclosures**

21 **(1) Standard**

22 The Mortgagee must provide Borrowers with a HECM Program Description
23 disclosure describing all products, options, and features of the HECM program
24 that FHA will insure, regardless of the products they offer. The Mortgagee must
25 provide a disclosure that is written in clear, consistent, and concise language.

26 The Mortgagee must not mislead or otherwise cause a Borrower to believe that
27 the HECM product contains any features or limitations that are inconsistent with
28 FHA’s requirements. Mortgagees are prohibited from seeking any agreement
29 from the Borrower that is inconsistent with the ability of the Borrower to exercise
30 their rights to the fullest extent permitted by law.

31 The Mortgagee’s HECM Program Description disclosure must explain:

- 32
 - the HECM is not assumable;
 - the HECM is a non-recourse loan;
- 33

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- 1 • the Property must be the Principal Residence:
 - 2 ○ the Borrower will be required to provide a written annual occupancy
 - 3 certification;
- 4 • FHA insures fixed rate HECMs, as well as annual and monthly adjustable
- 5 rate HECMs;
- 6 • for fixed rate HECMs:
 - 7 ○ the Borrower is limited to the single lump sum payment option, which
 - 8 provides a single, full Disbursement at HECM closing with no
 - 9 opportunity for future Disbursements by the Borrower under any
 - 10 circumstances; and
 - 11 ○ Disbursement of HECM proceeds during the First 12-Month
 - 12 Disbursement Period is limited to the amount of the Borrower's
 - 13 Advance;
- 14 • for adjustable rate HECMs:
 - 15 ○ the Borrower may choose from five, flexible payment options,
 - 16 allowing for future Disbursements, and the Borrower may change
 - 17 payment plans to one of the other available payment options at any
 - 18 time provided funds are available;
 - 19 ○ the frequency of annual and monthly adjustable rate changes; and
 - 20 ○ Disbursement of HECM proceeds during the First 12-Month
 - 21 Disbursement Period is subject to an Initial Disbursement Limit;
- 22 • the amount of funds made available to the Borrower is based on the age of
- 23 the youngest Borrower or Eligible NBS:
 - 24 ○ the Principal Limit will increase monthly but there are restrictions for
 - 25 disbursing those funds during the First 12-Month Disbursement
 - 26 Period;
- 27 • the Initial Mortgage Insurance Premium (IMIP) options and how
- 28 Disbursements of HECM proceeds made during the First 12-Month
- 29 Disbursement Period affect the amount being charged;
- 30 • the costs of obtaining the HECM:
 - 31 ○ provide the Borrower with a Good Faith Estimate (GFE), giving the
 - 32 Borrower an estimate of closing costs and explaining which charges
 - 33 are required to obtain the HECM and which charges are not required to
 - 34 obtain the HECM, including the disclosure of third-party fees; and
 - 35 ○ inquire whether the HECM proceeds will be used to pay any cost
 - 36 associated with estate planners and inform the Borrower that such
 - 37 services are unnecessary to obtain a HECM and are ineligible for
 - 38 payment from HECM proceeds;
- 39 • the Property must meet FHA's Minimum Property Requirements (MPR)
- 40 or Minimum Property Standards (MPS) and the provisions for completing
- 41 required repairs either prior to or after closing;
- 42 • insurance is required for all improvements on the Property that serves as
- 43 collateral for the HECM, whether in existence at the time of origination or
- 44 subsequently erected, against any hazards, casualties, and contingencies,

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1 including fire and flood, for which the Mortgagee requires insurance. Such
2 insurance must be maintained in the amount and for the period of time that
3 is necessary to protect the Mortgagee’s investment;

- 4 • the Borrower and NBS, if any, will be required to disclose and certify their
5 marital status at closing:
 - 6 ○ an NBS may be eligible for the deferral of the Due and Payable status
7 upon the death of the last surviving Borrower if the NBS meets and
8 continues to meet the Qualifying Attributes; and
 - 9 ○ an NBS and Non-Borrowing Owners must sign the Mortgage as
10 Borrowers evidencing their commitment of the Property as security for
11 the Mortgage, and sign a certification consenting to their spouse or
12 other Borrower obtaining the HECM and acknowledging the terms and
13 conditions of the Mortgage;
- 14 • repayment and prepayment features; and
- 15 • the Borrower’s rights, obligations, and remedies with respect to temporary
16 absences from the home, late payments, and payment default by the
17 Mortgagee and all conditions requiring satisfaction of the HECM.

18 **(2) Required Documentation**

19 At initial application, the Mortgagee must obtain the HECM Program Description
20 disclosure signed and dated by the Borrower.

21 **(B) Compliance with All Applicable Laws, Rules and Requirements**

22 The Mortgagee is required to comply with all federal, state and local laws, rules, and
23 requirements applicable to the HECM transaction, including all applicable disclosure
24 requirements and the requirements of the [Consumer Financial Protection Bureau](#)
25 [\(CFPB\)](#), including those related to:

- 26 • Truth in Lending Act (TILA); and
- 27 • Real Estate Settlement Procedures Act (RESPA).

28 **(C) Nondiscrimination Policy**

29 The Mortgagee must fully comply with all applicable provisions of:

- 30 • Title VIII of the Civil Rights Act of 1968 (Fair Housing Act);
- 31 • the Fair Credit Reporting Act, Public Law 91-508; and
- 32 • the Equal Credit Opportunity Act, Public Law 94-239 and [12 CFR Part 202](#).

33 The Mortgagee must make all determinations with respect to the adequacy of the
34 Borrower’s income in a uniform manner without regard to race, color, religion, sex,
35 national origin, familial status, handicap, marital status, actual or perceived sexual
36 orientation, gender identity, source of income of the Borrower, or location of the
37 Property.

1 **iii. Application Document Processing**

2 **(A) Mortgagee Responsibilities**

3 The Mortgagee must order the FHA case number and perform any associated tasks in
4 [FHAC](#). The Mortgagee may use non-employees in connection with its origination of
5 FHA-insured HECMs only as described below. The Mortgagee ultimately remains
6 responsible for the quality of the HECM and for strict compliance with all applicable
7 FHA requirements, regardless of the Mortgagee’s relationship to the person or
8 Affiliate performing any particular service or task.

9 **(1) Sponsored Third-Party Originator**

10 The Mortgagee is responsible for dictating the specific application and processing
11 tasks to be performed by the sponsored TPO. Only FHA-approved Mortgagees
12 acting in the capacity of a sponsored TPO may have direct access to [FHAC](#).

13 **(2) Other Contract Service Providers**

14 The Mortgagee may utilize Eligible Contractors to perform the following
15 administrative and clerical functions: typing of mortgage documents, mailing out
16 and collecting verification forms, ordering credit reports, and/or preparing for
17 endorsement and shipping HECMs to investors.

18 **(3) Excluded Parties**

19 The Mortgagee may not contract with Affiliates or persons that are suspended,
20 debarred, or otherwise excluded from participation in HUD programs, or under a
21 [Limited Denial of Participation \(LDP\)](#) that excludes their participation in FHA
22 programs. The Mortgagee must ensure that no sponsored TPO or contractor
23 engages such an Affiliate or person to perform any function relating to the
24 origination of a HECM. The Mortgagee must check the [System for Award](#)
25 [Management \(SAM\)](#) (www.sam.gov) and must follow appropriate procedures
26 defined by that system to confirm eligibility for participation.

27 **(B) Initial Document Processing**

28 The Mortgagee begins processing the HECM by obtaining an initial *RLARM* ([Fannie](#)
29 [Mae Form 1009](#)) and Part V of form [HUD-92900-A](#).

30 **(1) Ordering Case Numbers**

31 The Mortgagee must use [FHAC](#) to order FHA case numbers. A case number can
32 be obtained only when the Mortgagee has an active HECM application for the
33 subject Borrower and Property.

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1 In order to obtain a case number, the Mortgagee must:

- 2 • provide the subject Borrower’s name, SSN, and date of birth;
- 3 • provide the property address;
- 4 • certify that the Mortgagee has an active HECM application for the subject
- 5 Borrower and Property; and
- 6 • obtain a *Certificate of HECM Counseling* for each individual required to
- 7 receive counseling. A *Certificate of HECM Counseling* must be signed
- 8 and dated by the HECM Counselor and the individual required to receive
- 9 counseling.

10 The *Certificate of HECM Counseling* may bear the name of one or more
11 individuals required to receive counseling.

12 The Mortgagee is not required to input appraiser information at the time the case
13 number is ordered.

14 The Mortgagee must obtain a case number within 180 Days of issuance of the
15 *Certificate of HECM Counseling* by the last individual who is required to receive
16 counseling. However, the Mortgagee is not required to close on the HECM prior
17 to the expiration of the *Certificate of HECM Counseling*.

18 **(a) Automated Data Processing Codes**

19 FHA Automated Data Processing (ADP) Codes are derived from the section
20 of the National Housing Act under which the HECM is to be insured. The
21 Mortgagee must select the correct ADP Code for each HECM in [FHAC](#).

22 **(b) Case Numbers on Sponsored Originations**

23 The Mortgagee will not be able to order case numbers for sponsored
24 originations unless the sponsored TPO has been registered in [FHAC](#).

25 **(c) Certificate of HECM Counseling Identification Number**

26 The Mortgagee must enter the HECM counseling certificate identification
27 number belonging to the last person counseled when there are multiple
28 certificates and none have expired. See [Individuals Required to Receive](#)
29 [HECM Counseling](#).

30 **(2) Holds Tracking**

31 If FHAC detects that a case number currently exists for the Property, a case
32 number will not be assigned. The Mortgagee will receive notification that the case
33 number assignment has been placed in Holds Tracking. The Mortgagee must
34 review the Holds Tracking screen in FHAC to determine the necessary actions to
35 obtain a case number.

1 **(3) Canceling and Reinstating Case Numbers**

2 **(a) Canceling a Case Number**

3 The Mortgagee may request cancellation of a case number by submitting a
4 request to HUD. A case number will be canceled only if:

- 5 • an appraisal has not been completed and the Borrower will not close
6 the HECM;
- 7 • the FHA mortgage insurance will not be sought; or
- 8 • the appraisal has already expired.

9 The Mortgagee must submit a request for cancellation to the FHA Resource
10 Center at answers@hud.gov using the [Case Cancellation Request Template](#).

11 **(b) Automatic Case Number Cancellations**

12 Case numbers are automatically canceled after six months if one of the
13 following actions is not performed as a last action:

- 14 • appraisal information entered;
- 15 • *Firm Commitment* issued by FHA;
- 16 • insurance application received and subsequent updates; or
- 17 • Notices of Return (NOR) or resubmissions.

18 Updates to the Borrower's name and/or property address, an appraisal update,
19 or a transmission of the IMIP do not constitute Last Action Taken.

20 **(c) Reinstatement of Case Numbers**

21 The Mortgagee may request reinstatement of canceled case numbers by
22 submitting a request to the FHA Resource Center using the [Case](#)
23 [Reinstatement Request Template](#).

24 Case numbers that were automatically canceled will be reinstated only if the
25 Mortgagee provides evidence that the subject HECM closed prior to
26 cancellation of the case number, such as a Settlement Statement or similar
27 legal document.

28 **(4) Transferring Case Numbers**

29 **(a) Requirements for the Transferring Mortgagee**

30 The original Mortgagee must assign the case number to the new Mortgagee
31 using the Case Transfer function in [FHAC](#) immediately upon the Borrower's
32 request.

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1 The original Mortgagee may provide processing documents but is not required
2 to do so.

3 The original Mortgagee may not charge the Borrower for the transfer of any
4 documents, but the original Mortgagee may negotiate a fee with the new
5 Mortgagee for providing the processing documents.

6 **(b) Case Number Transfer Involving a Rejected HECM**

7 If the transfer involves a rejected HECM, the original Mortgagee must
8 complete the HECM Mortgage Credit Reject function in [FHAC](#) prior to
9 transferring the HECM.

10 **(c) Case Number Transfer Involving a Sponsored Third-Party**
11 **Originator**

12 Where a case number is transferred to a new approved Mortgagee or
13 sponsored TPO, the original Mortgagee, its authorized agent, or sponsored
14 TPO that is also an FHA-approved Mortgagee must complete the appropriate
15 sections in [FHAC](#) as described in the [FHAC Guide – Case Processing Support](#)
16 [Functions](#).

17 **(5) Preliminary Review of Borrower Eligibility Requirements**

18 The Mortgagee must preliminarily review the following before moving forward
19 with the application process:

- 20 • Borrower will be at least 62 years of age by closing;
- 21 • Borrower has no unresolved delinquent Federal Debt; and
- 22 • the Property securing the HECM will be the Borrower’s Principal
23 Residence.

24 If, after a review of these requirements, the Mortgagee finds that the Borrower is
25 ineligible, the Mortgagee must notify the Borrower of their ineligibility and cease
26 processing of the application. The Mortgagee cannot charge the Borrower for any
27 services performed after this determination.

28 **(6) Ordering Title Commitments**

29 The Mortgagee must order a title commitment to ensure the Property will be
30 properly titled and the HECM secured in accordance with FHA requirements.

31 **(7) Ordering Appraisals**

32 The Mortgagee must order a new appraisal for each HECM case number
33 assignment and may not reuse an appraisal that was performed under another case
34 number, even if the prior appraisal is not yet more than 120 Days old.

1 **(a) Appraisal Integrity**

2 The Mortgagee is responsible for identifying any problems or potential
3 problems with the integrity, accuracy and thoroughness of an appraisal
4 submitted to FHA for mortgage insurance purposes.

5 Appraisers must comply with the [Uniform Standards of Professional](#)
6 [Appraisal Practice \(USPAP\)](#), including the Competency Rule, when
7 conducting appraisals of Properties intended as security for FHA-insured
8 financing. In appraising any Property for the purpose of obtaining FHA
9 mortgage insurance, the Appraiser must certify that they are capable of
10 performing the appraisal because they have the necessary qualifications and
11 access to all necessary data.

12 The Mortgagee must ensure that FHA is listed on the appraisal report as an
13 Intended User of the appraisal.

14 **(b) Selection of a Qualified Appraiser**

15 The Mortgagee must order an appraisal from an Appraiser who is listed on the
16 [FHA Appraiser Roster](#) and is qualified and knowledgeable in the specific
17 market area in which the Property is located. The Mortgagee must evaluate
18 the Appraiser’s education, training, and actual field experience to determine
19 whether the Appraiser has sufficient qualifications to perform the appraisal
20 before assignment.

21 The Mortgagee may not discriminate on the basis of race, color, religion,
22 national origin, sex, age, familial status, disability, or actual or perceived
23 sexual orientation and gender identity in the selection of an Appraiser.

24 **(c) Use of Appraisal Management Company or Third-Party Contractors**

25 The Mortgagee may engage an Appraisal Management Company (AMC) to
26 perform services related to the obtaining of an appraisal. The Mortgagee
27 remains responsible for the acts of its AMC or third-party contractors.

28 The Mortgagee may not pay the AMC and other third-party contractors fees in
29 excess of what is customary and reasonable for such services in the market
30 area where the Property being appraised is located. Any management fees
31 must be for actual services related to the ordering, process, or review of
32 appraisal for FHA financing.

33 **(d) Appraiser Independence**

34 The Mortgagee must ensure it does not compromise the Appraiser’s
35 independence.

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1 The Mortgagee may not allow the Appraiser to be selected, retained,
2 managed, or compensated by a mortgage broker or any member of a
3 Mortgagee's staff who is compensated on a commission basis tied to the
4 successful completion of a HECM or who is not independent of the
5 Mortgagee's HECM production staff or processes.

6 The Mortgagee must ensure that it does not:

- 7 • compensate the Appraiser at a rate that is not commensurate in the
8 market area of the Property being appraised with the assignment type,
9 complexity, and scope of work required for the appraisal services
10 performed;
- 11 • withhold or threaten to withhold timely payment or partial payment for
12 an appraisal report;
- 13 • prohibit the Appraiser from recording the fee paid for the performance
14 of the appraisal in the appraisal report;
- 15 • condition the ordering of an appraisal report or the payment of an
16 appraisal fee, salary, or bonus on the opinion, conclusion, or valuation
17 to be reached, or on a preliminary value estimate requested from an
18 Appraiser;
- 19 • provide to the Appraiser, appraisal company, AMC or any Entity or
20 person related to the Appraiser, appraisal company or AMC, stock or
21 other financial or non-financial benefits;
- 22 • order, obtain, use, or pay for a second or subsequent appraisal or AVM
23 in connection with a HECM transaction unless:
 - 24 ○ there is a reasonable basis to believe that the initial appraisal was
25 flawed or tainted and such belief is clearly and appropriately noted
26 in the HECM file; or
 - 27 ○ such appraisal or AVM was completed pursuant to written, pre-
28 established bona fide pre- or post-Disbursement appraisal review
29 or quality control process or underwriting guidelines and the
30 Mortgagee adheres to a policy of selecting the most reliable
31 appraisal, rather than the appraisal that states the highest value;
- 32 • withhold or threaten to withhold future business from an Appraiser, or
33 demote or terminate or threaten to demote or terminate an Appraiser in
34 order to influence an Appraiser to arrive at a predetermined or desired
35 value;
- 36 • make expressed or implied promises of future business, promotions, or
37 increased compensation for an Appraiser in order to influence an
38 Appraiser to arrive at a predetermined or desired value;
- 39 • allow the removal of an Appraiser from a list of qualified Appraisers
40 or the addition of an Appraiser to an exclusionary list of qualified
41 Appraisers, used by any Entity, without prompt written notice to such
42 Appraiser. The notice must include written evidence of the Appraiser's
43 illegal conduct, violation of [USPAP](#) or state licensing standards,

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1 improper or unprofessional behavior or other substantive reason for
2 removal;

- 3 • request that an Appraiser provide an estimated, predetermined, or
4 desired valuation in an appraisal report prior to the completion of the
5 appraisal report, or request that an Appraiser provide estimated values
6 or comparable sales at any time prior to the Appraiser’s completion of
7 an appraisal report;
- 8 • provide to the Appraiser an anticipated, estimated, encouraged or
9 desired value for a subject Property or a proposed, or target amount to
10 be loaned to the Borrower, except that a copy of the sales contract for
11 purchase and any addendum must be provided; or
- 12 • perform any other act or practice that impairs or attempts to impair an
13 Appraiser’s independence, objectivity, or impartiality, or that violates
14 any applicable law, regulation, or requirement.

15 **(e) Additional Requirements When Ordering an Appraisal**

16 The Mortgagee must provide to the selected Appraiser the FHA case number,
17 land lease, surveys, and other legal documents contained in the HECM file
18 necessary to analyze the Property.

19 The Mortgagee must disclose all known information regarding any
20 environmental hazard that is in or on the subject Property, or in the vicinity of
21 the Property, whether obtained from the Borrower, the real estate broker, or
22 any other party to the transaction.

23 **(8) Appraisal Effective Date**

24 The effective date of the appraisal cannot be before the FHA case number
25 assignment date.

26 The Mortgagee must ensure that the appraisal was performed in accordance with
27 FHA appraisal reporting instructions as detailed in this Handbook 4000.1 and the
28 [Appraisal Report and Data Delivery Guide](#). The intended use of the appraisal
29 must indicate that it is solely to assist FHA in assessing the risk of the Property
30 securing the HECM. Additionally, FHA and the Mortgagee must be indicated as
31 the intended users of the appraisal report.

32 **(9) Transferring Existing Appraisals**

33 In cases where the Borrower has switched Mortgagees, the first Mortgagee must,
34 at the Borrower’s request, transfer the appraisal to the second Mortgagee within
35 five business Days. The Appraiser is not required to provide the appraisal to the
36 new Mortgagee. The client name on the appraisal does not need to reflect the new
37 Mortgagee. If the original Mortgagee has not been reimbursed for the cost of the

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1 appraisal, the Mortgagee is not required to transfer the appraisal until it is
2 reimbursed.

3 The second Mortgagee may not request the Appraiser to re-address the appraisal.
4 If the second Mortgagee finds deficiencies in the appraisal, the Mortgagee must
5 order a new appraisal.

6 Where a Mortgagee uses an existing appraisal for a different Borrower, the
7 Mortgagee must enter the new Borrower's information in [FHAC](#). The Mortgagee
8 must collect an appraisal fee from the new Borrower and refund the fee to the
9 original Borrower.

10 If a [Case Transfer](#) is involved, the new Mortgagee must enter the Borrower's
11 information in [FHAC](#). The new Mortgagee must collect an appraisal fee from the
12 Borrower and send the fee to the original Mortgagee, who, in turn, must refund
13 the fee to the original Borrower.

14 **(10) Ordering Second Appraisal**

15 **(a) Collateral Risk Assessment**

16 **(i) Definition**

17 Collateral Risk Assessment refers to FHA's automated process that is used
18 to establish the appraised value of the property that will serve as collateral
19 for the HECM.

20 Electronic Appraisal Delivery (EAD) refers to a web-based platform
21 where Mortgagees or their designated technology service providers
22 electronically deliver FHA Single Family appraisal reports prior to
23 endorsement.

24 **(ii) Standard**

25 If FHA's collateral risk assessment determines a second appraisal is
26 required, the Mortgagee must order the second appraisal from an appraiser
27 not associated with the same appraisal company as the first appraisal. The
28 Mortgagee must allot adequate time prior to the planned Closing Date to
29 allow for obtaining a second appraisal, if required.

30 The cost of the second appraisal is eligible to be financed as part of the
31 closing costs.

1 **(b) Ordering Second Appraisal**

2 The Mortgagee is prohibited from ordering an additional appraisal to achieve
3 an increase in value for the Property and/or the elimination or reduction of
4 deficiencies and/or repairs required.

5 **(i) Second Appraisal by Original Mortgagee**

6 A second appraisal may only be ordered if:

- 7 1. FHA’s collateral risk assessment determines a second appraisal is
8 required.
- 9 2. The Direct Endorsement (DE) underwriter (underwriter)
10 determines the first appraisal is materially deficient and the
11 Appraiser is unable to resolve or uncooperative in resolving the
12 deficiency. The Mortgagee must fully document the deficiency and
13 status of the appraisal in the mortgage file. The Mortgagee must
14 pay for the second appraisal.

15 Material deficiencies on appraisals are those deficiencies that have a direct
16 impact on value and marketability. Material deficiencies include, but are
17 not limited to:

- 18 • failure to report readily observable defects that impact the health
19 and safety of the occupants and/or structural soundness of the
20 house;
- 21 • reliance upon outdated or dissimilar comparable sales when more
22 recent and/or comparable sales were available as of the effective
23 date of the appraisal; and
- 24 • fraudulent statements or conclusions when the Appraiser had
25 reason to know or should have known that such statements or
26 conclusions compromise the integrity, accuracy and/or
27 thoroughness of the appraisal submitted to the client.

28 **(ii) Second Appraisal by Second Mortgagee**

29 A second appraisal may only be ordered by the second Mortgagee under
30 the following limited circumstances:

- 31 • the first appraisal contains material deficiencies as determined by
32 the underwriter for the second Mortgagee;
- 33 • the Appraiser performing the first appraisal is prohibited from
34 performing appraisals for the second Mortgagee; or
- 35 • the first Mortgagee fails to provide a copy of the appraisal to the
36 second Mortgagee in a timely manner, and the failure would cause
37 a delay in closing and harm to the Borrower, including loss of
38 interest rate lock, violation of purchase contract deadline,
39 occurrence of foreclosure proceedings, and imposition of late fees.

1 **(iii) Use of Second Appraisal**

2 For the first two cases outlined above, the Mortgagee must rely only on
3 the second appraisal and ensure that copies of both appraisals are retained
4 in the case binder. For the third case above, the first appraisal must be
5 added to the case binder if it is received.

6 **(iv) Required Documentation**

7 The Mortgagee must document why a second appraisal was ordered and
8 retain the explanation and all appraisal reports in the case binder.

9 **(11) Ordering an Update to an Appraisal**

10 The Mortgagee may only order an update if (1) it is a Mortgagee listed as an
11 intended user of the original appraisal or (2) it has received permission from the
12 original client and the Appraiser. The Appraiser incorporates the original report
13 being updated by attachment rather than by reference per Advisory Opinion 3 of
14 the [USPAP](#).

15 The Mortgagee may use an update of appraisal only if:

- 16 • it is performed by an FHA Appraiser who is currently in good standing on
17 the FHA Appraiser Roster;
 - 18 ○ if a substitute Appraiser is used due to the lack of the original
19 Appraiser availability, the substitute Appraiser must state they concur
20 with the analysis and conclusions in the original appraisal report and
21 the Mortgagee must document in the case binder why the original
22 Appraiser was not used;
- 23 • the Property has not declined in value;
- 24 • the building improvements that contribute value to the Property can be
25 observed from the street or a public way;
- 26 • the exterior inspection of the Property reveals no deficiencies or other
27 significant changes;
- 28 • the update of appraisal was ordered by the Mortgagee and completed by
29 the Appraiser prior to the expiration of the initial 120-Day period; and
- 30 • the original appraisal report was not previously updated.

31 **(12) Appraisal Delivery – Electronic Appraisal Delivery**

32 **(a) Definition**

33 The Electronic Appraisal Delivery (EAD) refers to a web-based platform
34 where Mortgagees or their designated technology service providers
35 electronically deliver FHA Single Family appraisal reports prior to
36 endorsement.

1 **(b) Standard**

2 Mortgagees or their designated technology service providers must deliver
3 appraisals through the legacy EAD portal or FHA Catalyst: EAD Module.

4 **(c) Required Documentation**

5 Appraisals submitted through the legacy EAD portal or FHA Catalyst: EAD
6 Module are the appraisals required for endorsement.

7 **b. General HECM Insurance Eligibility**

8 **i. HECM Purpose**

9 FHA insures mortgages secured by HECM Properties under section 255 of the National
10 Housing Act. The intent of the HECM program is to provide elderly homeowners the
11 option of using the equity in their homes to address economic hardship caused by the
12 increasing costs of health, housing, and subsistence needs at a time of reduced income.

13 **(A) HECM Traditional**

14 HECM Traditional refers to a transaction where a Borrower with legal title, leasehold
15 interest, or possessory interest obtains a HECM to access equity in their current
16 Principal Residence.

17 **(B) HECM for Purchase**

18 HECM for Purchase refers to a transaction where the Borrower uses the HECM to
19 finance the purchase of an existing one- to four-unit residence where the Borrower
20 will occupy one unit as their Principal Residence.

21 The Borrower may use a HECM for Purchase transaction to satisfy an outstanding
22 payment obligation associated with a land contract, contract for deed or other similar
23 purchase arrangement that will ensure the Property will meet FHA’s title
24 requirements. For additional requirements that are applicable to a HECM for
25 Purchase transaction, see [HECM for Purchase](#).

26 **(C) HECM-to-HECM Refinance**

27 HECM-to-HECM Refinance (HECM Refinance) refers to a new HECM, where the
28 proceeds will be used to pay off the property indebtedness of the current HECM and
29 any existing eligible lien. For additional requirements that are applicable to a
30 Refinance transaction, see [HECM Refinance](#).

1 **ii. Borrower Eligibility**

2 **(A) General Borrower Eligibility Requirements**

3 In order to obtain FHA-insured financing, all Borrowers must meet the eligibility
4 criteria in this section.

5 **(1) Minimum Age Requirement**

6 All Borrowers must be at least 62 years of age as of the Closing Date. There is no
7 maximum age limit for a Borrower.

8 **(2) Principal Residence**

9 **(a) Definition**

10 Eligible Surviving Non-Borrowing Spouse (NBS), for the purpose of
11 Mortgagee Optional Election (MOE) Assignment, refers to an NBS of a
12 HECM Borrower where the HECM was assigned an FHA case number prior
13 to August 4, 2014, and meets the [eligibility requirements](#) identified by HUD.

14 Principal Residence refers to the dwelling where the Borrower and, if
15 applicable, a NBS maintain their permanent place of abode, and typically
16 spend the majority of the calendar year. A person may have only one Principal
17 Residence at any one time and the Property is considered to be the Principal
18 Residence:

- 19 • of any Borrower who is temporarily in a health care institution
20 provided the Borrower's confinement to a health care institution does
21 not exceed 12 consecutive months;
- 22 • of any NBS who is temporarily in a health care institution, as long as
23 the Property is the Principal Residence of their Borrower spouse, who
24 physically resides in the Property;
- 25 • of any NBS who occupies the Property as their Principal Residence,
26 when the Borrower resides in a health care institution for a length of
27 time; and
- 28 • during an MOE Assignment Deferral Period of the NBS, who is
29 temporarily in a health care institution, provided the Eligible
30 Surviving NBS physically occupied the Property immediately prior to
31 entering the health care institution and such confinement does not
32 exceed 12 consecutive months.

33 **(b) Standard**

34 The Property must be the Principal Residence of each Borrower and a
35 Borrower may have only one Principal Residence at any one time.

1 **(3) Citizenship and Immigration Status**

2 U.S. citizenship is not required for HECM eligibility.

3 **(4) U.S. Residency Requirements**

4 The Mortgagee must determine the residency status of the Borrower based on
5 information provided on the mortgage application and other applicable
6 documentation. A Social Security card is not sufficient to prove immigration or
7 work status. The following categories of individuals are eligible for FHA-insured
8 financing in accordance with the requirements set forth below:

9 **(a) Permanent Residents**

10 **(i) Standard**

11 A Borrower with lawful permanent resident status may be eligible for
12 FHA-insured financing provided the Borrower satisfies the same
13 requirements, terms and conditions as those for U.S. citizens.

14 **(ii) Required Documentation**

15 The HECM file must include evidence of lawful permanent residence and
16 indicate that the Borrower is a lawful permanent resident on the *RLARM*.

17 The U.S. Citizenship and Immigration Services (USCIS) within the
18 Department of Homeland Security provides evidence of lawful permanent
19 resident status.

20 **(b) Non-Permanent Residents**

21 A Borrower who is a non-permanent resident may be eligible for FHA-insured
22 financing provided:

- 23 • the Property will be the Borrower's Principal Residence;
- 24 • the Borrower has a valid SSN, except for those employed by the
25 World Bank, a foreign embassy, or equivalent employer identified by
26 HUD;
- 27 • the Borrower is eligible to work in the United States provided the
28 Borrower provides either:
 - 29 ○ an Employment Authorization Document (USCIS Form I-766)
30 showing that work authorization status is current;
 - 31 ○ a USCIS Form I-94 evidencing H-1B status, and evidence of
32 employment by the authorized H-1B employer for a minimum of
33 one year;
 - 34 ○ evidence of being granted refugee or asylee status by the USCIS;
35 or

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- evidence of citizenship of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau; and
- the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

If the Employment Authorization Document (USCIS Form I-766) or evidence of H-1B status will expire within one year and a prior history of residency status renewals exists, the Mortgagee may assume that continuation will be granted. If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the employer or the USCIS.

A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS must provide documentation:

- Employment Authorization Document (USCIS Form I-766) or USCIS Form I-94 indicating refugee or asylum status, or
- USCIS Form I-797 notice indicating approval of a USCIS Form I-589, Application for Asylum or Withholding of Removal substantiating the refugee or asylee status.

(c) Non-U.S. Citizens without Lawful Residency

Non-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured HECM financing.

(5) Borrower Ownership and Obligation Requirements

To be eligible, all Borrowers must hold title, leasehold interest, or possessory interest to the Property in their own name or in the name of a [Living Trust](#) at closing, be obligated on the Note or credit instrument, and sign all security instruments.

In community property states, the Borrower's [spouse](#) is not required to be a Borrower. However, the Mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

(a) Eligibility Requirements for Living Trusts

(i) Definitions

A Living Trust is a type of trust that is created and takes effect during the creator's lifetime and may be amended or revoked at any time by the person or persons who created it.

A Trustee is the person charged with the administration of the Living Trust.

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1 A Beneficiary is a person currently entitled to receive benefits of the trust.

2 A Primary Beneficiary is a person who is entitled to receive the benefits of
3 the Living Trust during their lifetime.

4 A Contingent Beneficiary is a person who is entitled to the benefits of the
5 trust only upon the death of the primary beneficiary, and who has no
6 control over the trust assets until the primary beneficiary is deceased.

7 **(ii) Standard**

8 The Mortgagee may originate a HECM that is held by a Living Trust
9 provided the following requirements are met:

- 10 • primary beneficiaries of the Living Trust are 62 years of age;
- 11 • all primary beneficiaries occupy or will occupy the subject
12 Property as their Principal Residence until the mortgage lien is
13 released. New beneficiaries shall not be added to the trust;
- 14 • primary beneficiaries must sign the loan agreement;
- 15 • the trustee and primary beneficiaries must sign the Note;
- 16 • the Mortgage, and other legal documents, are signed by all parties
17 necessary to create a valid first Mortgage and second Mortgage, if
18 applicable, which may include:
 - 19 ○ the trustee;
 - 20 ○ all beneficiaries; and
 - 21 ○ all contingent beneficiaries; and
- 22 • the Mortgagee has determined that the Living Trust:
 - 23 ○ is valid and enforceable;
 - 24 ○ provides each beneficiary with a legal right to occupy the
25 Property for the remainder of their life; and
 - 26 ○ provides for Notice to the Mortgagee of any change to the
27 occupancy of the Property, or any transfer of beneficial interest
28 in the Property.

29 Contingent beneficiaries do not need to meet eligible Borrower
30 requirements.

31 **(iii) Required Documentation**

32 The Mortgagee must obtain a copy of the trust agreement or the
33 Declaration of Trust to ensure all Living Trust eligibility requirements are
34 met.

1 **(b) Eligibility Requirements for Borrowers Holding Only Life Estates**

2 **(i) Standard**

3 A Borrower who holds only a life estate is eligible for a HECM only if all
4 holders of any reversionary or remainder interest will also execute the
5 Mortgage.

6 **(ii) Required Documentation**

7 For life estates, the Mortgagee must obtain a copy of the document
8 granting the Borrower a life estate.

9 **(6) Marital Status**

10 The Mortgagee must require all Borrowers to state whether they are legally
11 married at the time of initial application and confirm this information at closing.

12 **(7) Social Security Number**

13 **(a) Standard**

14 Each Borrower must provide evidence of their valid SSN to the Mortgagee.

15 **(b) Required Documentation**

16 The Mortgagee must:

- 17 • validate and document an SSN for each Borrower by:
 - 18 ○ entering the Borrower’s name, date of birth, and SSN in the
 - 19 Borrower/address validation screen through [FHAC](#); and
 - 20 ○ examining the Borrower’s original pay stubs, W-2 forms, valid tax
 - 21 returns obtained directly from the IRS, or other document relied
 - 22 upon to process the HECM; and
- 23 • resolve any inconsistencies or multiple SSNs for individual Borrowers
- 24 that are revealed during HECM processing using a service provider to
- 25 verify the SSN with the SSA.

26 **Exception**

27 Individuals employed by the World Bank, a foreign embassy or equivalent
28 employer identified by HUD are not required to provide an SSN.

1 **(8) Borrower Minimum Decision Credit Score**

2 **(a) Definitions**

3 The Minimum Decision Credit Score (MDCS) refers to the credit score
4 reported on the Borrower’s credit report when all reported scores are the
5 same. Where three differing scores are reported, the middle score is the
6 MDCS. Where two differing scores are reported, the MDCS is the lowest
7 score. Where only one score is reported, that score is the MDCS.

8 An MDCS is determined for each Borrower. Where the HECM involves
9 multiple Borrowers, the Mortgagee must determine the MDCS for each
10 Borrower, and then select the lowest MDCS for all Borrowers.

11 Where the HECM involves multiple Borrowers and one or more of the
12 Borrowers do not have a credit score (non-traditional or insufficient credit),
13 the Mortgagee must select the lowest MDCS of the Borrowers with credit
14 scores.

15 **(b) Eligibility Standard**

16 There is no MDCS for a HECM. Credit scores are not a criterion for
17 processing or evaluating a HECM.

18 **(9) Delinquent FHA-insured Mortgages**

19 **(a) Principal Residences**

20 Borrowers delinquent on an FHA-insured Mortgage on their Principal
21 Residence must pay off the Delinquent Mortgage prior to or at closing of the
22 HECM.

23 **(b) Other FHA-Insured Mortgages**

24 Borrowers delinquent on an FHA-insured Mortgage that is not their Principal
25 Residence are ineligible for a new FHA-insured HECM unless the
26 delinquency is resolved.

27 **(10) Delinquent Federal Tax Debt**

28 **(a) Standard**

29 Borrowers with delinquent Federal Tax Debt are ineligible.

30 Federal tax liens may remain unpaid if the Borrower has entered into a valid
31 repayment agreement with the federal agency owed to make regular payments
32 on the debt and the Borrower has made timely payments for at least three

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1 months of scheduled payments. The Borrower cannot prepay scheduled
2 payments in order to meet the required minimum of three months of
3 payments.

4 The Mortgagee must include the payment amount in the agreement in the
5 calculation of the Borrower's monthly expenses.

6 **(b) Verification**

7 Mortgagees must check public records and credit information to verify that
8 the Borrower is not presently delinquent on any Federal Tax Debt and does
9 not have a tax lien placed against their Property for a tax debt owed to the
10 federal government.

11 **(c) Required Documentation**

12 The Mortgagee must include documentation from the IRS evidencing the
13 repayment agreement and verification of payments made, if applicable.

14 **(11) Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt**

15 **(a) Standard**

16 Mortgagees are prohibited from processing an application for an FHA-insured
17 HECM for Borrowers with delinquent federal non-tax debt, including
18 deficiency Judgments and other debt associated with past FHA-insured
19 Mortgages. Mortgagees must suspend processing of the application until the
20 debt has been resolved with the creditor agency. Mortgagees are required to
21 determine whether the Borrowers have delinquent federal non-tax debt.
22 Mortgagees may obtain information on delinquent Federal Debts from public
23 records, credit reports or equivalent, and must check all Borrowers against the
24 [Credit Alert Verification Reporting System \(CAIVRS\)](#).

25 **(b) Verification**

26 If a delinquent Federal Debt is reflected in a public record, credit report or
27 equivalent, or CAIVRS or an Equivalent System, the Mortgagee must verify
28 the validity and delinquency status of the debt by contacting the creditor
29 agency to whom the debt is owed. If the debt was identified through CAIVRS,
30 the Mortgagee must contact the creditor agency using the contact phone
31 number and debt reference number reflected in the Borrower's CAIVRS
32 report.

33 If the creditor agency confirms that the debt is valid and in delinquent status
34 as defined by the [Debt Collection Improvement Act](#), then the Borrower is

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1 ineligible for an FHA-insured HECM until the Borrower resolves the debt
2 with the creditor agency.

3 The Mortgagee may not deny a HECM solely based on the CAIVRS
4 information that has not been verified by the Mortgagee. If resolved either by
5 determining that the information in CAIVRS is no longer valid or by resolving
6 the delinquent status as stated above, the Mortgagee may continue to process
7 the HECM application.

8 **(c) Resolution**

9 For a Borrower with verified delinquent Federal Debt to become eligible, the
10 Borrower must resolve their federal non-tax debt in accordance with the [Debt](#)
11 [Collection Improvement Act](#).

12 The creditor agency that is owed the debt can verify that the debt has been
13 resolved in accordance with the Debt Collection Improvement Act.

14 **(d) Required Documentation**

15 The Mortgagee must include documentation from the creditor agency to
16 support the verification and resolution of the debt. For debt reported through
17 CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a
18 clear CAIVRS report.

19 **(12) Valid First and Second Liens**

20 The Mortgagee must ensure that the mortgaged Property will be free and clear of
21 all liens or that any liens are subordinated to the first HECM lien and any second
22 lien held by the Commissioner. The Mortgagee must ensure there are no
23 restrictions on conveyance, unless such restrictions are permitted by FHA
24 regulations.

25 **(a) Consent of Non-Borrowing Spouses**

26 If necessary to perfect a valid first and second HECM liens where required,
27 under state law, the Mortgagee must require an NBS to execute either the
28 Mortgage or documentation indicating that they are relinquishing all rights to
29 the Property.

30 **(b) Tax Liens**

31 Tax liens may remain unpaid if the Borrower has entered into a valid
32 repayment agreement with the lien holder to make regular payments on the
33 debt and the Borrower has made timely scheduled payments for at least three
34 consecutive months. The Borrower cannot prepay scheduled payments in

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1 order to meet the required minimum of three months of payments. Except for
2 federal tax liens, the lien holder must subordinate the tax lien to the FHA-
3 insured HECM.

4 **(c) Court Judgment Liens**

5 Liens against the Property resulting from outstanding court Judgments must
6 be paid in full prior to or at closing.

7 **(d) Secondary Financing**

8 A pre-existing Mortgage lien securing secondary financing that was provided
9 by a Governmental Entity (federal, state, or local) or by an organization acting
10 on behalf of a Governmental Entity must be paid in full prior to closing.

11 **(e) Real Estate Tax Deferral Program**

12 **(i) Definitions**

13 Real Estate Tax Deferral Program refers to a taxing authority deferring the
14 payment of property taxes, i.e., liability for taxes remains, but payment is
15 deferred until a certain point in the future.

16 **(ii) Standard**

17 The Mortgagee must ensure the Borrower is not a participant in a real
18 estate tax deferral program unless such liens securing payment of deferred
19 taxes are subordinate to the first and second HECM liens, and:

- 20 • the real estate tax deferral period will be in place until the death of
21 the Borrower or the sale of the Property, whichever occurs first;
22 and
- 23 • a lien superior to the first and second HECM liens will not be
24 created upon the termination of the real estate tax deferral period
25 resulting in any obligation for the deferred tax obligation to be
26 repaid at the death or move-out of the Borrower, or any other
27 maturity event.

28 **(iii) Required Documentation**

29 The Mortgagee must obtain evidence documenting the deferred taxes and
30 lien priority.

1 **(B) General Non-Borrowing Spouse Requirements**

2 **(1) Definitions**

3 An Ineligible Non-Borrowing Spouse refers to an NBS who does not meet all
4 Qualifying Attributes for a Deferral Period.

5 Qualifying Attributes refer to the criteria an NBS must meet to be eligible for the
6 Deferral Period. An Eligible NBS must:

- 7 • have been the spouse of a HECM Borrower at the time of closing and have
8 remained the spouse of such HECM Borrower for the duration of the
9 HECM Borrower’s lifetime;
- 10 • have been properly disclosed to the Mortgagee at origination and
11 specifically named as an NBS in the HECM documents; and
- 12 • have occupied, and continue to occupy, the Property securing the HECM
13 as the Principal Residence of the NBS.

14 A Deferral Period refers to the period of time following the death of the last
15 surviving Borrower during which the Due and Payable status of a HECM is
16 deferred for an Eligible NBS provided that the Qualifying Attributes and all other
17 FHA requirements continue to be satisfied.

18 **(2) Marital Status**

19 **(a) Standard**

20 At initial application, the Mortgagee must:

- 21 • verify the name and age of any NBS on the Borrower’s application;
- 22 and
- 23 • determine if the spouse is an Eligible or Ineligible NBS.

24 An Eligible NBS may not elect to be ineligible for the Deferral Period. An
25 Eligible NBS becomes an Ineligible NBS and ineligible for the Deferral
26 Period when any of the Qualifying Attributes cease to be met.

27 **(b) Required Documentation**

28 The Mortgagee must obtain the following:

- 29 • a marriage certificate, legal opinion certifying the validity of the
30 marriage, or other evidence sufficient to establish the legal validity of
31 the marriage;
- 32 • the NBS’s SSN; and
- 33 • either the Ineligible NBS or Eligible NBS certification.

1 **(3) Social Security Number**

2 **(a) Standard**

3 Each NBS must have a valid SSN.

4 **(b) Required Documentation**

5 The Mortgagee must:

- 6 • validate and document an SSN for each NBS by:
 - 7 ○ entering the NBS’s name, date of birth, and SSN in the
 - 8 Borrower/address validation screen through [FHAC](#); and
 - 9 ○ examining the Eligible NBS’s original pay stubs, W-2 forms, valid
 - 10 tax returns obtained directly from the IRS, or other document
 - 11 relied upon to process the HECM; and
- 12 • resolve any inconsistencies or multiple SSNs for individual Eligible
- 13 NBS that are revealed during HECM processing using a service
- 14 provider to verify the SSN with the SSA.

15 Exception

16 Individuals employed by the World Bank, a foreign embassy or equivalent

17 employer identified by HUD are not required to provide an SSN.

18

19

20 **(4) Non-Borrowing Spouse Age Limits**

21 The NBS does not have to be 62 years old for an eligible Borrower to obtain a

22 HECM.

23 **(5) Principal Residence**

24 The Mortgagee must determine whether the Property serves as the [Principal](#)

25 [Residence](#) of each NBS.

26 **(C) Excluded Parties**

27 A Borrower is ineligible to participate in FHA-insured mortgage transactions if they

28 or their NBS are suspended, debarred, or otherwise excluded from participating in

29 HUD programs.

30 The Mortgagee must establish that the Borrower and Eligible NBS are not Excluded

31 Parties and document the determination as required below.

1 **(1) Borrower**

2 **(a) Standard**

3 A Borrower is not eligible to participate in FHA-insured mortgage
4 transactions if they are suspended, debarred, or otherwise excluded from
5 participating in HUD programs.

6 **(b) Required Documentation**

7 The Mortgagee must check the HUD [LDP](#) list to confirm the Borrower’s
8 eligibility to participate in an FHA-insured mortgage transaction.

9 The Mortgagee must check SAM (www.sam.gov) and follow appropriate
10 procedures defined by that system to confirm eligibility for participation.

11 The Mortgagee must print the results of the check of the HUD LDP and SAM
12 to confirm eligibility of participation in the HECM program.

13 **(2) Other Parties to the Transaction**

14 **(a) Standard**

15 A HECM is not eligible for FHA insurance if anyone participating in the
16 HECM transaction is listed on HUD’s [LDP](#) list or in SAM as being excluded
17 from participation in HUD transactions. This may include but is not limited
18 to:

- 19 • seller (except where selling the Principal Residence)
- 20 • listing and selling real estate agent
- 21 • loan originator
- 22 • loan processor
- 23 • underwriter
- 24 • Appraiser
- 25 • Closing Agent
- 26 • title company

27 **(b) Required Documentation**

28 The Mortgagee must check the HUD [LDP](#) list and SAM (www.sam.gov) and
29 follow appropriate procedures defined by that system to confirm eligibility for
30 all participants involved in the transaction.

1 **(D) Limitation on Number of HECMs**

2 **(1) Standard**

3 A Borrower with an existing HECM is eligible to obtain a new HECM if the
4 Borrower provides legal documentation evidencing release of the Borrower’s
5 financial obligation to satisfy the existing HECM.

6 A Borrower with an existing HECM is eligible to use the HECM for Purchase
7 program to obtain a new Principal Residence if they pay off the existing HECM
8 before the HECM for Purchase transaction is insured.

9 **(2) Required Documentation**

10 The Borrower must provide a copy of:

- 11 • a final divorce decree or court order and a recorded quit claim deed
12 evidencing release of the Borrower’s financial obligation to satisfy the
13 existing HECM;
- 14 • a final divorce decree or court order, as evidence the vacating Borrower is
15 released from their financial obligation to satisfy the indebtedness of the
16 existing HECM; or
- 17 • evidence that the existing HECM outstanding balance is repaid in full,
18 such as a copy of the fully executed Closing Disclosure, HUD-1
19 Settlement Statement or similar legal document, payoff statement and
20 copy of the canceled check or its equivalent, credit report with a zero
21 balance or copy of the canceled check or its equivalent, and a copy of the
22 lien release.

23 **iii. Property Eligibility and Acceptability Criteria**

24 The Property must meet FHA’s definition of a HECM Property.

25 In order to obtain FHA-insured financing, the Property must meet the eligibility criteria
26 in this section.

27 **(A) General Property Eligibility**

28 **(1) Definitions**

29 HECM Property refers to a Property that is either Existing Construction or New
30 Construction which will serve as collateral for the HECM.

31 Existing Construction refers to a Property that has been 100 percent complete for
32 over one year or has been completed for less than one year and was previously
33 occupied.

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1 New Construction refers to Proposed Construction, Properties Under
2 Construction, and Properties Existing Less than One Year as defined below:

- 3 • Proposed Construction refers to a Property where no concrete or
4 permanent material has been placed. Digging of footing is not considered
5 permanent.
- 6 • Under Construction refers to the period from the first placement of
7 permanent material to 100 percent completion with no Certificate of
8 Occupancy (CO) or equivalent.
- 9 • Existing Less than One Year refers to a Property that is 100 percent
10 complete and has been completed less than one year from the date of the
11 issuance of the CO or equivalent. The Property must have never been
12 occupied.

13 **(2) Location of HECM Property**

14 The HECM Property must be located within a State, District of Columbia, Puerto
15 Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana
16 Islands, or American Samoa.

17 **(3) Hazard Insurance**

18 The Borrower must insure all improvements on the HECM Property, whether in
19 existence at the time of origination or subsequently erected, against any hazards,
20 casualties, and contingencies, including fire and flood, for which the Mortgagee
21 requires insurance. Hazard Insurance must be maintained in the amount and for
22 the period of time that is necessary to protect the Mortgagee's investment. Refer
23 to the Condominium product sheet of this section of Handbook 4000.1 for
24 additional [insurance](#) requirements.

25 **(4) Special Flood Hazard Areas**

26 The Mortgagee must determine if a Property is located in a Special Flood Hazard
27 Area (SFHA) as designated by the Federal Emergency Management Agency
28 (FEMA). The Mortgagee must obtain flood zone determination services,
29 independent of any assessment made by the Appraiser to cover the Life of the
30 Loan Flood Certification.

31 A Property is not eligible for FHA insurance if:

- 32 • a residential building and related improvements to the Property are located
33 within any SFHA Zone beginning with the letter A, a Special Flood Zone
34 Area, or any Zone beginning with the letter V, a Coastal Area, and
35 insurance under the National Flood Insurance Program (NFIP) is not
36 available in the community; or
- 37 • the improvements are, or are proposed to be, located within a Coastal
38 Barrier Resources System (CBRS).

1 **(a) Eligibility for Existing Construction in SFHAs**

2 When any portion of the residential improvements is determined to be located
3 within an SFHA, insurance under the NFIP must be obtained.

4 **(b) Eligibility for Condominiums in SFHAs**

5 The Mortgagee must ensure the Condominium Association has Flood
6 Insurance under the NFIP on buildings located within the SFHA. The [flood](#)
7 [insurance coverage](#) must protect the interest of the Borrowers who hold title to
8 an individual unit, as well as the common areas of the Condominium Project.
9 See [Handbook 4000.1](#), section II.C.2.c.vii(D), Flood Insurance (Existing
10 Construction).

11 **(c) Eligibility for Manufactured Housing in SFHAs**

12 The finished grade level beneath the Manufactured Home must be at or above
13 the 100-year return frequency flood elevation. If any portion of the dwelling,
14 related Structures or equipment essential to the Property Value and subject to
15 flood damage for both new and existing Manufactured Homes are located
16 within an SFHA, the Property is not eligible for FHA mortgage insurance
17 unless the Mortgagee obtains:

- 18 • a FEMA issued Letter of Map Amendment (LOMA) or Letter of Map
19 Revision (LOMR) that removes the Property from the SFHA; or
- 20 • a FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)) prepared
21 by a licensed engineer or surveyor stating that the finished grade
22 beneath the Manufactured Home is at or above the 100-year return
23 frequency flood elevation, and insurance under the NFIP is obtained.

24 **(d) Required Flood Insurance Amount**

25 For Properties located within an SFHA, Flood Insurance must be maintained
26 for the life of the HECM in an amount at least equal to the lowest of:

- 27 • 100 percent replacement cost of the insurable value of the
28 improvements, which consists of the development or project costs, less
29 estimated land costs;
- 30 • the maximum amount of the NFIP insurance available with respect to
31 the property improvements; or
- 32 • the outstanding mortgage balance of the HECM.

33 **(e) Required Documentation**

34 The Mortgagee must obtain a Life of Loan Flood Certification for all
35 Properties. If applicable, the Mortgagee must also obtain a:

- 36 • FEMA LOMA;

- FEMA LOMR; or
- FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#)).

(f) Restrictions on Property Locations within Coastal Barrier Resources System

In accordance with the [Coastal Barrier Resources Act](#), a Property is not eligible for FHA mortgage insurance if the improvements are located within the [Coastal Barrier Resources System](#).

(5) Mixed Use of Property

Mixed Use refers to a Property suitable for a combination of uses including any of the following: commercial, residential, retail, office, or parking space. Mixed Use one- to four-unit Single Family Properties are eligible for FHA insurance, provided:

- a minimum of 51 percent of the entire building square footage is for residential use; and
- the commercial use will not affect the health and safety of the occupants of the residential Property.

(6) Homeowners' and Condominium Associations

For Properties that are located within a Homeowners' Association (HOA) or Condominium Association, the Mortgagee must conduct a review of the recorded Declaration and/or recorded Covenants, Conditions, and Restrictions (CC&R) which are in place for the association. When conducting the review, the Mortgagee must determine whether the recorded Declaration and/or CC&Rs require prior approval by the association of any non-purchase money mortgage that will encumber the Property. In those situations where such a requirement exists, the Mortgagee must obtain the approval of the association in writing prior to origination of the HECM. Documentation concerning this approval must be maintained by the Mortgagee and made available to HUD upon request.

(7) Property Assessed Clean Energy

(a) Definition

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements to residential properties using financing provided by private enterprises in conjunction with state and local governments. Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax; it is collected by the local government rather than paid directly by the Borrower to the party providing the PACE financing. Generally, the PACE obligation is also secured in the same manner as a special assessment against the property.

1 **(b) Standard**

2 Properties which will remain encumbered with a PACE obligation are not
3 eligible for an FHA-insured HECM. To be eligible for FHA insurance, the
4 PACE obligation must be paid off in full at closing. The Borrower may use
5 HECM proceeds to satisfy the PACE obligation.

6 **(B) Property Types**

7 FHA’s programs differ from one another primarily in terms of what types of
8 Properties and financing are eligible. Except as otherwise stated in this Handbook
9 4000.1, HECMs are limited to one- to four-unit Single-Family Properties where the
10 Borrower occupies one unit as their Principal Residence. FHA insures HECM
11 financing on Real Property secured by:

- 12 • detached or semi-detached dwellings
- 13 • Manufactured Housing
- 14 • townhouses or row houses
- 15 • Condominium Units and Site Condominiums

16 FHA will not insure HECMs secured by:

- 17 • commercial enterprises
- 18 • cooperative units
- 19 • boarding houses
- 20 • hotels, motels and condotels
- 21 • tourist houses
- 22 • private clubs
- 23 • bed and breakfast establishments
- 24 • other transient housing
- 25 • Vacation Homes
- 26 • fraternity and sorority houses

27 **(1) One Unit**

28 A one-unit Property is a one-family dwelling.

29 **(2) Two Unit**

30 A two-unit Property is a Single Family residential Property with two individual
31 dwellings.

32 The Mortgagee must obtain a completed form [HUD-92561](#), *Borrower’s Contract*
33 *with Respect to Hotel and Transient Use of Property*.

1 **(3) Three to Four Unit**

2 A three- to four-unit Property is a Single Family residential Property with three to
3 four individual dwellings.

4 The Mortgagee must obtain a completed form [HUD-92561](#).

5 **(4) Condominium Unit**

6 **(a) Definitions**

7 A Condominium Unit refers to real estate consisting of a one-family Dwelling
8 Unit in a Condominium Project.

9 Condominium Project refers to a project in which one-family Dwelling Units
10 are attached, semi-detached, detached, or Manufactured Home units, and in
11 which owners hold an undivided interest in Common Elements.

12 **(b) Standard**

13 A [Condominium Unit](#) must be either located within an FHA-approved
14 Condominium Project, meet FHA’s definition of a Site Condominium, or have
15 completed the FHA Single-Unit Approval process before a Mortgage can be
16 insured.

17 **(5) Site Condominiums**

18 **(a) Definition**

19 A Site Condominium refers to:

- 20 • a Condominium Project that consists entirely of Single Family
21 detached dwellings that have no shared garages, or any other attached
22 buildings; or
- 23 • a Condominium Project that:
 - 24 ○ consists of Single Family detached or horizontally attached
25 (townhouse) dwellings where the Unit consists of the dwelling and
26 land;
 - 27 ○ does not contain any Manufactured Housing Units; and
 - 28 ○ is encumbered by a declaration of condominium covenants or a
29 condominium form of ownership.

30 **(b) Standard**

31 Manufactured Housing condominium units may not be processed as Site
32 Condominiums.

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1 The Unit owner must be responsible for all insurance and maintenance costs,
2 excluding landscaping, of the Site Condominium.

3 Site Condominiums do not require Condominium Project Approval or Single-
4 Unit Approval.

5 **(6) Manufactured Housing**

6 **(a) Definition**

7 Manufactured Housing refers to Structures that are transportable in one or
8 more sections. They are designed to be used as a dwelling when connected to
9 the required utilities, which include the plumbing, heating, air-conditioning,
10 and electrical systems contained therein. Manufactured Housing is designed
11 and constructed to the federal Manufactured Home Construction and Safety
12 Standards (MHCSS) as evidenced by an affixed HUD Certification Label.
13 Manufactured Housing may also be referred to as mobile housing, sectionals,
14 multi-sectionals, double-wide, triple-wide, or single-wide.

15 **(b) Standard**

16 To be eligible for FHA mortgage insurance as a Single Family Title II HECM,
17 all Manufactured Housing must:

- 18 • be designed as a one-family dwelling;
- 19 • have a floor area of not less than 400 square feet;
- 20 • have the HUD Certification Label affixed or have obtained a [letter of](#)
21 [label verification](#) issued on behalf of HUD, evidencing the house was
22 constructed on or after June 15, 1976, in compliance with the [Federal](#)
23 [Manufactured Home Construction and Safety Standards](#);
- 24 • be classified as real estate (but need not be treated as real estate for
25 purposes of state taxation);
- 26 • be built and remain on a permanent chassis;
- 27 • be designed to be used as a dwelling with a permanent foundation built
28 in accordance with the [Permanent Foundations Guide for](#)
29 [Manufactured Housing \(PFGMH\)](#); and
- 30 • have been directly transported from the manufacturer or the dealership
31 to the site.

32 It may be part of a [Condominium Project](#) (see the Condominium Project
33 Approval section in the Handbook 4000.1 for more information), provided the
34 project meets applicable FHA requirements.

1 **(c) Required Documentation**

2 **(i) HUD Certification Label**

3 If the appraisal indicates the HUD Certification Label is missing from the
4 Manufactured Housing unit, the Mortgagee must obtain label verification
5 from the [Institute for Building Technology and Safety \(IBTS\)](#).

6 **(ii) PFGMH Certification**

7 The Mortgagee must obtain a certification by an engineer or architect, who
8 is licensed/registered in the state where the Manufactured Home is
9 located, attesting to compliance with the PFGMH.

10 The Mortgagee may obtain a copy of the foundation certification from a
11 previous FHA-insured Mortgage, showing that the foundation met the
12 guidelines published in the PFGMH that were in effect at the time of
13 certification, provided there are no alterations and/or observable damage
14 to the foundation since the date of the original certification.

15 If the Appraiser notes additions or alterations to the Manufactured
16 Housing unit, the Mortgagee must ensure the addition was addressed in
17 the foundation certification.

18 If the additions or alterations were not addressed in the foundation
19 certification, the Mortgagee must obtain:

- 20 • an inspection by the state administrative agency that inspects
- 21 Manufactured Housing for compliance; or
- 22 • certification of the structural integrity from a licensed structural
- 23 engineer if the state does not employ inspectors.

24 **(C) Property Valuation**

25 The Mortgagee is responsible for obtaining an appraisal to verify the value of the
26 Property and the Property's compliance with HUD's [Minimum Property](#)
27 [Requirements \(MPR\) or Minimum Property Standards \(MPS\)](#).

28 **(1) Integrity of Valuation Process: Communications with Mortgagees**

29 The Mortgagee must ensure the integrity of the valuation process by ensuring the
30 valuation process is free from conflicts of interest and the appearance of conflicts
31 of interest.

1 **(a) Standard**

2 The Mortgagee must prevent its staff, or any person who is compensated on a
3 commission basis upon the successful completion of a HECM, or who reports,
4 ultimately, to any officer of the Mortgagee not independent of the HECM
5 production staff and process, from having substantive communications with
6 an Appraiser relating to or having an impact on valuation, including ordering
7 or managing an appraisal assignment. Normal communications necessary to
8 processing of a case is permissible, but cannot attempt to influence the
9 Appraiser.

10 The underwriter who has responsibility for the quality of the appraisal report
11 is allowed to request clarifications and discuss with the Appraiser components
12 of the appraisal that influence its quality.

13 **(b) Exception for Smaller Mortgagees**

14 When absolute lines of independence cannot be achieved because of the
15 Mortgagee’s small size and limited staff, the Mortgagee must clearly
16 demonstrate that it has prudent safeguards to isolate its collateral evaluation
17 process from influence or interference from its HECM production process.

18 **(2) Communications with Third Parties**

19 The underwriter may request a clarification or reconsideration of value from the
20 Appraiser, following the requirements in [Reconsideration of Value](#). The
21 Mortgagee may not discuss the contents of an appraisal with anyone other than
22 the Borrower.

23 **(3) Verifying HUD’s Minimum Property Standards/Minimum Property**
24 **Requirements**

25 As the onsite representative for the Mortgagee, the Appraiser provides
26 preliminary verification that a Property meets the Property Acceptability Criteria,
27 which include HUD’s MPR or MPS.

28 When examination of a Property reveals noncompliance with the Property
29 Acceptability Criteria, the Appraiser must note all repairs necessary to make the
30 Property comply with HUD’s Property Acceptability Criteria, together with the
31 estimated cost to cure.

32 **(4) Statement of Appraised Value**

33 The Mortgagee must provide the Borrower with a copy of form [HUD-92800.5B](#),
34 *Conditional Commitment Direct Endorsement Statement of Appraised Value*.

1 **iv. Legal Restrictions on Conveyance (Free Assumability)**

2 The Mortgagee must determine that any legal restrictions on conveyance conform with
3 the requirements in [24 CFR § 206.45\(e\)](#).

4 In accordance with [24 CFR § 203.41\(d\)\(1\)\(ii\)](#), FHA considers a reasonable share of
5 appreciation to be at least 50 percent. HUD does not object to affordable housing
6 programs whereby the homeowner's share of appreciation is on a sliding scale beginning
7 at zero, provided that within two years the homeowner would be permitted to retain 50
8 percent of the appreciation. If the program sets a maximum sales price restriction, the
9 Borrower must be permitted to retain 100 percent of the appreciation.

10 A Property that contains leased equipment, or operates with a leased energy system or
11 Power Purchase Agreement (PPA), may be eligible for FHA-insured financing but only
12 when such agreements are free of restrictions that prevent the Borrower from freely
13 transferring the Property.

14 Such agreements are acceptable, provided they do not cause a conveyance (ownership
15 transfer) of the insured Property by the Borrower to:

- 16 • be void, or voidable by a third party;
- 17 • be the basis of contractual liability of the Borrower (including rights of first
18 refusal, pre-emptive rights or options related to a Borrower's efforts to convey);
- 19 • terminate or be subject to termination all or part of the interest held by the
20 Borrower;
- 21 • be subject to the consent of a third party;
- 22 • be subject to limits on the amount of sales proceeds a Borrower can retain (e.g.,
23 due to a lien, "due on sale" clause, etc.);
- 24 • be grounds for accelerating the insured HECM; or
- 25 • be grounds for increasing the interest rate of the insured HECM.

26 Any restrictions resulting from provisions of the lease or PPA do not conflict with FHA
27 regulations unless they include provisions encumbering the Real Property or restricting
28 the transfer of the Real Property.

29 Legal restrictions on conveyance of Real Property (i.e., the house) that could require the
30 consent of a third party (e.g., energy provider, system owner, etc.), include but are not
31 limited to, credit approval of a new purchaser before the seller can convey the Real
32 Property, unless such provisions may be terminated at the option of, and with no cost to,
33 the owner.

34 If an agreement for an energy system lease or PPA could cause restriction upon transfer
35 of the house, the Property is subject to impermissible legal restrictions and is generally
36 ineligible for FHA insurance.

1 **3. Allowable Mortgage Parameters**

2 The Mortgagee must determine the Borrower’s creditworthiness, financial capacity, and
3 available capital to support the HECM. The Mortgagee must also examine the Property to ensure
4 it provides sufficient collateral for the HECM.

5 For each HECM the FHA insures, the Mortgagee must fully comply with the following
6 underwriting procedures.

7 **a. Maximum Mortgage Amounts**

8 A maximum mortgage amount is not required to be stated in the Mortgage. However, where
9 state law requires the Mortgage to reflect a maximum mortgage amount, the Mortgagee must
10 use an amount that is at least equal to 150 percent of the Maximum Claim Amount (MCA).

11 The Mortgagee may not disburse payments which will cause the outstanding loan balance to
12 exceed the maximum mortgage amount stated in the Mortgage after the payment is
13 disbursed. If the outstanding mortgage balance reaches the maximum mortgage amount,
14 payments to the Borrower would cease. Payments may be reinstated only in the event the
15 Borrower executes a modification to the Mortgage.

16 For each HECM FHA insures, the Mortgagee must fully comply with the following
17 requirements.

18 **i. National Housing Act’s Statutory Limits**

19 The National Housing Act establishes the [national mortgage limit](#) for HECMs.

20 **ii. Nationwide Mortgage Limits**

21 The [national mortgage limit](#) for HECMs is governed by the maximum claim amount
22 limitation in sections 255(g) and 255(m) of the National Housing Act, which contains
23 cross-references to section 305(a)(2) of the Federal Home Loan Mortgage Corporation
24 Act. FHA publishes updated limits effective for each calendar year.

25 **iii. Special Exceptions for Alaska, Hawaii, Guam, and the Virgin Islands**

26 Mortgage limits for the special exception areas of Alaska (AK), Hawaii (HI), Guam
27 (GU), and the Virgin Islands (VI) may be 150 percent of the Freddie Mac conforming
28 limits.

29 **b. Maximum Claim Amount**

30 **i. Definition**

31 The Maximum Claim Amount (MCA) is the lesser of the:

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- 1 • appraised value as determined by the [Collateral Risk Assessment](#);
2 • national mortgage limit; or
3 • sales contract price (applicable only to HECM for Purchase).

4 **ii. Standard**

5 The Mortgagee must determine the MCA at origination. When the collateral risk
6 assessment determines that a second appraisal is required, the Mortgagee must use the
7 lower of the two appraised values. The IMIP must not be taken into account in the
8 calculation of the MCA. Closing costs must not be taken into account in determining
9 appraised value.

10 **c. Interest Rate Options**

11 **i. Definitions**

12 Fixed Rate refers to an interest rate that is fixed over the life of the HECM.

13 Annually Adjustable Interest Rate refers to an interest rate that adjusts annually with a 2
14 percent annual cap and a 5 percent lifetime cap.

15 Monthly Adjustable Interest Rate refers to an interest rate that adjusts monthly. The
16 Mortgagee must establish a lifetime cap on rate adjustments.

17 **ii. Standard**

18 The Mortgagee and Borrower must agree upon the interest rate. The Mortgagee may offer
19 a fixed rate HECM and/or an adjustable rate HECM.

20 The Mortgagee may only offer a monthly adjustable rate when the Mortgagee also offers
21 an annually adjustable rate HECM.

22 The Mortgagee must provide the Borrower with a written explanation of any adjustable
23 rate features of a HECM. The explanation must include the following items:

- 24 • circumstances under which the rate may increase;
25 • any limitations on the increase and the effect of an increase; and
26 • Truth in Lending Act (TILA) pre-loan disclosures.

27 **d. Principal Limit**

28 **i. Definitions**

29 Principal Limit refers to the maximum amount of proceeds that a Borrower may receive
30 from the HECM before any Disbursements are made, taking into account the age of the
31 youngest Borrower or [Eligible NBS](#), the Expected Rate, and the MCA.

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1 Principal Limit Factor refers to a multiplier supplied by FHA used to calculate the initial
2 Principal Limit and is available on the [HUD website](#).

3 Expected Average Mortgage Interest Rate (Expected Rate) refers to the interest rate used
4 to calculate the Principal Limit at closing.

5 Mortgagee's Margin refers to the amount that is determined by the Mortgagee and is
6 added to the index value to compute the Expected Rate and is the same margin used to
7 determine the initial mortgage interest rate (Note rate) and the periodic adjustments to the
8 Note rate.

9 Index Type refers to the interest rate index used to calculate the Expected Rate.

10 **ii. Standard**

11 The Mortgagee is responsible for calculating the Principal Limit to determine the amount
12 of HECM proceeds that will be available to the Borrower. The Principal Limit is
13 calculated by multiplying the MCA by the Principal Limit Factor.

14 The Principal Limit for a fixed rate HECM will increase each month by one-twelfth of
15 the sum of the Note interest rate, plus the annual mortgage insurance rate, but no further
16 HECM proceeds may be made available to the Borrower to draw against after the
17 Borrower's Advance.

18 The Principal Limit for an adjustable rate HECM will increase each month by one-
19 twelfth of the sum of the Note interest rate, plus the annual mortgage insurance rate.

20 The Mortgagee must ensure the Borrower is given an analysis of the cost of a HECM
21 versus the benefits of the HECM in order to make an informed decision pertaining to
22 whether a HECM would meet their individual needs.

23 **iii. Principal Limit Factor**

24 The Mortgagee must determine the appropriate Principal Limit Factor based on the age of
25 the youngest Borrower or [Eligible NBS](#) and the Expected Rate.

26 The Mortgagee must use the Principal Limit Factor based on the age of the youngest
27 Borrower or [Eligible NBS](#), rounded up to the nearest whole year if the next birthday is
28 less than 183 Days after closing.

29 The Mortgagee must also calculate the Principal Limit using the Principal Limit Factor
30 based on the age of the youngest Ineligible NBS solely for the purpose of disclosing the
31 amount of Principal Limit that would have been available under the HECM if they were
32 an Eligible NBS.

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1 The Mortgagee must advise prospective Borrowers and NBSs to discuss with the
2 Housing Counselor whether Principal Limit Factors below 20 percent may improve their
3 financial situation, or meet any special needs, and that, given the costs of obtaining the
4 HECM, they should give significant consideration to its potential benefits.

5 The Mortgagee must use the *HECM Principal Limit Factor Tables* available at:
6 https://www.hud.gov/program_offices/housing/sfh/hecm.

7 **iv. Expected Rate**

8 For fixed rate HECMs, the Expected Rate is the same as the Note rate and is set
9 simultaneously with the Note rate. See [Establishing the Note Rate](#) for additional
10 guidance.

11 For adjustable rate HECMs, the Expected Rate is the sum of the mortgagee's margin plus
12 the weekly average yield for U.S. Treasury securities adjusted to a constant maturity of
13 10 years. The 10-year constant maturity treasury (CMT) index is published on Mondays,
14 or the following business day if a holiday, in the Federal Reserve Board Statistical
15 Release H.15 at <http://www.federalreserve.gov/releases/h15/current>.

16 **v. Expected Rate and Mortgagee's Margin Lock-In**

17 **(A) Standard**

18 Mortgagees, with the agreement of the Borrower, may simultaneously lock in the
19 Expected Rate and the mortgagee's margin, if applicable, prior to the date of closing
20 or simultaneously lock in the Expected Rate and the mortgagee's margin, if
21 applicable, on the date of closing.

22 The Expected Rate and mortgagee's margin, if applicable, may be locked in for a
23 period of up to 120 Days after the FHA case number is assigned. Upon the expiration
24 of a lock-in period, Mortgagees, with the agreement of the Borrower, may
25 simultaneously lock in the Expected Rate and mortgagee's margin, if applicable, for a
26 period of up to 120 Days.

27 When a case number is transferred to a new Mortgagee, the Expected Rate and
28 mortgagee's margin, if applicable, may be locked in by the new Mortgagee with the
29 agreement of the Borrower for a period of up to 120 Days.

30 Mortgagees are not permitted to charge a fee for the lock-in rate.

31 If the lock-in agreement includes a float down option, the [Principal Limit](#) may be
32 recalculated at closing if the expected interest rate has declined.

1 **(B) Required Documentation**

2 The Mortgagee must obtain a signed lock-in agreement from the Borrower that
3 consent was given to lock-in the Expected Rate and mortgagee’s margin, if
4 applicable.

5 **e. Payment Plan**

6 **i. Definition**

7 Payment Plan Option refers to the manner that HECM proceeds are disbursed to the
8 Borrower.

9 **ii. Standard**

10 The Borrower may choose from among six different payment plans on how HECM
11 proceeds are to be disbursed. The Mortgagee is prohibited from requiring, as a condition
12 of the HECM, that any payments or draws exceed a minimum amount.

13 For adjustable rate HECMs, the Borrower may change payment plans to one of the other
14 available payment options at any time, provided funds are available.

15 **(A) Single Lump Sum Payment Option**

16 The single lump sum payment option is only available for fixed rate HECMs. The
17 Borrower receives a single Disbursement at closing. After closing, the Mortgagee
18 must not disburse HECM proceeds to the Borrower, except from a Set-Aside
19 established at closing.

20 **(B) Tenure Payment Option**

21 The tenure payment option is available for adjustable rate HECMs. The Borrower
22 receives fixed monthly payments so long as the HECM is not prepaid in full or
23 becomes Due and Payable, or the payments do not exceed any maximum mortgage
24 amount stated in the security instrument or would otherwise exceed the amount
25 secured by the first HECM lien.

26 **(C) Term Payment Option**

27 The term payment option is available for adjustable rate HECMs. The Borrower
28 receives equal monthly payments for a term of months selected by the Borrower.

29 **(D) Line of Credit Payment Option**

30 The line of credit payment option is available for adjustable rate HECMs. The
31 Borrower receives unscheduled payments at times and in amounts of the Borrower’s
32 choosing.

1 **(E) Modified Tenure Payment Option**

2 The modified tenure payment option is available for adjustable rate HECMs. The
3 Borrower must set aside a portion of the Principal Limit as a line of credit from which
4 to draw at times and in amounts of their choosing, and receives the rest in equal
5 monthly payments.

6 **(F) Modified Term Payment Option**

7 The modified term payment option is available for adjustable rate HECMs. The
8 Borrower must set aside a portion of the Principal Limit as a line of credit from which
9 to draw at times and in amounts of their choosing, and receives the rest in equal
10 monthly payments for a term of months selected by the Borrower.

11 **f. HECM Calculator Software**

12 **i. Definition**

13 [HECM Calculator Software](#) refers to FHA’s technology software that is used to calculate
14 the Principal Limit and for comparison analysis of different payment options.

15 **ii. Standard**

16 Mortgagees and HECM Counselors must use computer printouts generated by FHA’s
17 [HECM Calculator Software](#), or similar software that generates the same information, for
18 calculating the Principal Limit and providing the Borrower with a comparison of various
19 payment plan options.

20 **g. Disbursement Limits**

21 **i. Definitions**

22 First 12-Month Disbursement Period refers to the period beginning on the day of closing
23 and ending on the day before the anniversary date of closing. When the day before the
24 anniversary date of closing falls on a federally observed holiday, Saturday, or Sunday, the
25 end period will be on the next business day.

26 Initial Disbursement Limit refers to the maximum amount of funds that can be advanced
27 to the Borrower of an adjustable rate HECM at closing and during the First 12-Month
28 Disbursement Period.

29 Borrower’s Advance refers to the funds advanced to the Borrower at the closing of a
30 fixed rate HECM.

31 Net Principal Limit refers to the amount of HECM funds available to, or to be paid on
32 behalf of, the Borrower after deducting all fees and charges that are required as a
33 condition of the Mortgage and prior disbursements from the Principal Limit.

1 **ii. Standard**

2 The Mortgagee must determine the Borrower’s Initial Disbursement Limit or Borrower’s
3 Advance at closing.

4 The Initial Disbursement Limit, Borrower’s Advance, or the amount disbursed to the
5 Borrower at any point in time may not exceed the Principal Limit.

6 The following items must be included in the Initial Disbursement Limit and Borrower’s
7 Advance.

8 Adjustable rate HECMs must include:

- 9
 - 10 • the amount of Mandatory Obligations;
 - 11 • the amount disbursed to the Borrower at closing; and
 - 12 • the amount of the available Initial Disbursement Limit not taken by the Borrower
 at closing.

13 Fixed rate HECMs must include:

- 14
 - 15 • the amount of Mandatory Obligations; and
 - the amount disbursed to the Borrower at closing.

16 **(A) Initial Disbursement Limit Calculation**

17 The Initial Disbursement Limit during the First 12-Month Disbursement Period is the
18 lesser of (1) or (2) below:

- 19 1. the greater of:
20
 - 21 • 60 percent of the Principal Limit; or
 - 22 • the sum of Mandatory Obligations plus [10 percent](#) of the Principal Limit,
23 if applicable; or

24 2. the Principal Limit less the sum of the funds in the Life Expectancy Set-Aside
25 (LESA) for payment beyond the First 12-Month Disbursement Period and the
 Servicing Fee Set-Aside.

26 The Borrower must notify the Mortgagee of the amount of the additional percentage
27 of the Principal Limit beyond Mandatory Obligations that will be drawn or the
28 amount that will remain available to be drawn during the First 12-Month
29 Disbursement Period. The Borrower may not increase or decrease this election after
30 closing.

31 **(B) Borrower’s Advance Calculation**

32 The Mortgagee must determine the Borrower’s Advance at closing. The Borrower’s
33 Advance is the lesser of (1) or (2) below:

- 34 1. the greater of:
35
 - 60 percent of the Principal Limit; or

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- 1 • the sum of Mandatory Obligations plus 10 percent of the Principal Limit,
2 if applicable; or
3 2. the Principal Limit less the sum of the funds in the LESA for payment beyond
4 the First 12-Month Disbursement Period and the Servicing Fee Set-Aside.

5 The Borrower must notify the Mortgagee of the amount of the additional percentage
6 of the Principal Limit beyond Mandatory Obligations that will be drawn.

7 **iii. Eligibility for an Additional 10 Percent of the Principal Limit**

8 The Borrower is eligible for up to an additional 10 percent of the Principal Limit when
9 Mandatory Obligations exceed 50 percent of the Principal Limit. The Borrower must
10 notify the Mortgagee of the amount of the additional 10 percent of the Principal Limit
11 that they intend to draw at the time of closing or during the First 12-Month Disbursement
12 Period.

13 **iv. Net Principal Limit Calculation**

14 The Mortgagee must determine the Net Principal Limit by subtracting from the Principal
15 Limit any initial payments to or on behalf of the Borrower, such as the IMIP, closing
16 costs, or cash payment to the Borrower, and if applicable, any funds set aside from the
17 Principal Limit for monthly servicing fees, repairs to be completed after closing, a LESA,
18 or first-year Property Charges.

19 **h. Maximum Mortgage Term**

20 The HECM does not have a fixed maturity date.

21 **i. Mortgage Insurance Premiums**

22 FHA collects a one-time IMIP and an annual insurance premium, also referred to as the
23 monthly mortgage insurance premium (MIP), which is collected in monthly installments.

24 **i. Initial Mortgage Insurance Premium**

25 **(A) Definitions**

26 Late Charges refers to charges assessed if the IMIP payment is received more than
27 five Days after the payment due date.

28 Closing Date refers to the date on which the Borrower signs the Note.

29 **(B) Standard**

30 **(1) Initial Mortgage Insurance Premium Amount**

31 FHA charges an IMIP of 2 percent of the MCA.

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1 The IMIP may be financed or paid in cash by the Borrower or Mortgagee. The
2 Borrower and/or Mortgagee may pay a portion or the full amount of the IMIP.
3 Any amount not paid in cash must be financed. Any IMIP amounts paid in cash
4 are added to the total cash requirements due at closing.

5 See the [Initial Mortgage Insurance Premium Amount](#) section in the HECM for
6 Purchase product sheet.

7 **(2) Refund and Credit of Initial Mortgage Insurance Premium**

8 The IMIP may be refunded only under the following circumstances:

- 9 • the Mortgagee remitted too much money;
- 10 • the HECM was never endorsed and is not eligible for endorsement;
- 11 • an appeal of Late Charges and/or interest was approved; or
- 12 • an erroneous Closing Date was entered and later corrected.

13 **ii. Annual Mortgage Insurance Premium**

14 The annual Mortgage Insurance Premium (MIP) is payable monthly. FHA charges an
15 annual MIP of 0.50 percent on the outstanding mortgage balance. The amount of the
16 annual MIP will begin to accrue on the outstanding mortgage balance from the Closing
17 Date.

18 **4. Underwriting the Property**

19 The Mortgagee must underwrite the completed appraisal report to determine if the Property
20 provides sufficient collateral for the FHA-insured HECM. The appraisal and Property must
21 comply with the requirements in the [Appraiser and Property Requirements for Title II Forward
22 and Reverse Mortgages](#). The appraisal must be reported in accordance with the [Acceptable
23 Appraisal Reporting Forms and Protocols](#) section in Handbook 4000.1.

24 **a. Property Acceptability Criteria**

25 **i. Definitions**

26 HECM Property refers to a Property that is either Existing Construction or New
27 Construction which will serve as collateral for the HECM.

28 [Minimum Property Requirements \(MPR\)](#) refer to general requirements that all homes
29 insured by FHA be safe, sound, and secure.

30 Minimum Property Standards (MPS) refer to regulatory requirements relating to the
31 safety, soundness and security of New Construction.

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1 Combination Inspector (CI) or Residential Combination Inspector (RCI) refers to an
2 inspector that has met certification requirements as determined by the International Code
3 Council (ICC).

4 **ii. Standard**

5 The Mortgagee must evaluate the appraisal and any supporting documentation to
6 determine if the Property complies with HUD's Property Acceptability Criteria. HECM
7 Properties must comply with [Minimum Property Requirements and Minimum Property](#)
8 [Standards by Construction Status](#). See HECM for Purchase product sheet for additional
9 Property Acceptability Requirements.

10 **(A) Defective Conditions**

11 The Mortgagee must evaluate the appraisal in accordance with the requirements for
12 [Defective Conditions](#). When defective conditions exist and correction is not feasible,
13 the Mortgagee must reject the Property. The Mortgagee may only approve a Property
14 after the Mortgagee confirms that all defects reported by the Appraiser have been
15 corrected.

16 **(B) Minimum Property Requirements and Minimum Property Standards**

17 As the onsite representative for the Mortgagee, the Appraiser provides preliminary
18 verification that a Property meets the Property Acceptability Criteria, which includes
19 HUD's MPR and MPS.

20 When examination of a Property reveals noncompliance with the Property
21 Acceptability Criteria, the Appraiser must note all repairs necessary to make the
22 Property comply with HUD's Property Acceptability Criteria, together with the
23 estimated cost to cure. If the Appraiser cannot determine that a Property meets
24 HUD's MPR or MPS, the Mortgagee may obtain an inspection from a qualified
25 Entity to make the determination. Mortgagees must use professional judgment in
26 determining when inspections are necessary to determine that a Property meets MPR
27 or MPS. Mortgagees must also use professional judgment in determining when a
28 property condition poses a threat to the health and safety of the occupant and/or
29 jeopardizes the soundness and structural integrity of the Property, such that additional
30 inspections and/or repairs are necessary.

31 The Mortgagee must confirm that the Property complies with the following eligibility
32 criteria.

33 **(1) Encroachment**

34 The Mortgagee must ensure the subject's dwelling, garage, or other improvements
35 do not encroach onto an adjacent Property, right-of-way, utility Easement, or
36 building restriction line. The Mortgagee must also ensure a neighboring dwelling,

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1 garage, or other improvements do not encroach onto the subject Property.
2 Encroachment by the subject or adjacent Property fences is acceptable provided
3 such Encroachment does not affect the marketability of the subject Property.

4 **(2) Overhead Electric Power**

5 The Mortgagee must confirm that any Overhead Electric Power Transmission
6 Lines do not pass directly over any dwelling, Structure, or related property
7 improvement, including pools. The power line must be relocated for a Property to
8 be eligible for an FHA-insured HECM.

9 The residential service drop line may not pass directly over any pool, spa, or
10 water feature.

11 If the dwelling or related property improvements are located within the Easement
12 area, the Mortgagee must obtain a certification from the appropriate utility
13 company or local regulatory agency stating that the relationship between the
14 improvements and Local Distribution Lines conforms to local standards and is
15 safe.

16 **(3) Access to Property**

17 The Mortgagee must confirm that the Property is provided with a safe pedestrian
18 access and Adequate Vehicular Access from a public or private street. Streets
19 must either be dedicated to public use and maintenance, or retained as private
20 streets protected by permanent recorded Easements.

21 Private streets, including shared driveways, must be protected by permanent
22 recorded Easements, ownership interest, or be owned and maintained by an HOA.
23 Shared driveways do not require a joint maintenance agreement.

24 **(4) Onsite Hazards and Nuisances**

25 The Mortgagee must require corrective work to mitigate potential adverse effects
26 from any onsite hazards or nuisances reported by the Appraiser.

27 **(5) Abandoned Gas and Oil Well**

28 If the Property contains any abandoned gas or oil wells, the Mortgagee must
29 obtain a letter from the local jurisdiction or appropriate state agency stating that
30 the subject well was permanently abandoned in a safe manner.

31 If the Property contains any abandoned petroleum product wells, the Mortgagee
32 must ensure that a qualified petroleum engineer has inspected the Property and
33 assessed the risk, and the appropriate state authorities have concurred on
34 clearance recommendations.

1 **(6) Requirements for Living Unit**

2 The Mortgagee must confirm that each living unit contains:

- 3 • a continuing and sufficient supply of safe and potable water under
- 4 adequate pressure and of appropriate quality for all household uses;
- 5 • sanitary facilities and a safe method of sewage disposal. Every living unit
- 6 must have at least one bathroom, which must include, at a minimum, a
- 7 water closet, lavatory, and a bathtub or shower;
- 8 • adequate space for healthful and comfortable living conditions;
- 9 • adequate heating for healthful and comfortable living conditions;
- 10 • domestic hot water; and
- 11 • electricity adequate for lighting, cooking and for mechanical equipment
- 12 used in the living unit.

13 The Mortgagee must ensure that [appliances](#) (see the Appliances section in the

14 Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

15 of the Handbook 4000.1) that are to remain and that contribute to the market

16 value opinion are operational.

17 FHA does not have a minimum size requirement for one- to four-family dwellings

18 and condominium units. For Manufactured Housing requirements, see the

19 [Manufactured Housing](#) section.

20 **(7) Swimming Pools**

21 The Mortgagee must confirm that any swimming pools comply with all local

22 ordinances.

23 **(8) Structural Conditions**

24 The Mortgagee must confirm that the Structure of the Property will be serviceable

25 for the life of the HECM.

26 The Mortgagee must confirm that all foundations will be serviceable for the life

27 of the HECM and adequate to withstand all normal loads imposed.

28 **(9) Environmental**

29 The Mortgagee must confirm that the Property is free of all known environmental

30 and safety hazards and adverse conditions that may affect the health and safety of

31 the occupants, the Property's ability to serve as collateral, and the structural

32 soundness of the improvements.

1 **(10) Lead-Based Paint**

2 For properties built before 1978 with lead-based paint hazards, the Mortgagee
3 must confirm whether any child under six years of age resides or is expected to
4 reside in the home and comply with the following:

- 5 • If a child under six years of age resides or is expected to reside in the
6 home, the Mortgagee must confirm that the Property is free of lead-based
7 paint hazards in accordance with the requirements of the Lead-based Paint
8 Poisoning Prevention Act (LPPPA).
- 9 • If no children under six years of age resides or is expected to reside in the
10 home, the Mortgagee must obtain certification from the Borrower that no
11 child under six years of age resides, or is expected to reside, in the home.
12 In accordance with the requirements of the LPPPA, the mitigation of
13 defective lead-based paint surfaces will not be required. The Mortgagee
14 must notify the Appraiser of the LPPPA exemption and ensure the
15 appraisal reflects the “As-Is” value of the subject Property’s defective
16 lead-based paint surfaces.

17 **(11) Defective Exterior Paint Surfaces**

18 The Mortgagee must confirm that the exterior of the Property is free from any
19 defective paint that exposes the dwelling subsurface to the elements (e.g.,
20 cracking, chipping, peeling, flaking, scaling paint, etc.).

21 **(12) Methamphetamine Contamination**

22 If the Mortgagee or the Appraiser identifies a Property as contaminated by the
23 presence of methamphetamine (meth), either by its manufacture or by
24 consumption, the Property is ineligible due to this environmental hazard until the
25 Property is certified safe for habitation.

26 **(13) Repair Requirements**

27 The Mortgagee must determine which repairs must be made for a HECM Property
28 to be eligible for an FHA-insured HECM.

29 **(14) Utility Services**

30 If utilities are not located on Easements that have been permanently dedicated to
31 the local government or appropriate public utility body, the Mortgagee must
32 confirm that this information is recorded on the deed record.

1 **(15) Water Supply Systems**

2 **(a) Public Water Supply System**

3 The Mortgagee must confirm that a connection is made to a public or
4 Community Water System whenever feasible and available at a reasonable
5 cost. If connection costs to the public or community system are not
6 reasonable, the existing onsite systems are acceptable, provided they are
7 functioning properly and meet the requirements of the local health
8 department.

9 When a public water supply system is present, the water quality is considered
10 to be safe and potable and to meet the requirements of the health authority
11 with jurisdiction unless:

- 12 • the Appraiser indicates deficiencies with the water or notifies the
- 13 Mortgagee that the water is unsafe; or
- 14 • the health authority with jurisdiction issues a public notice indicating
- 15 that the water is unsafe.

16 **(b) Individual Water Supply Systems (Wells)**

17 When an Individual Water Supply System is present, the Mortgagee must
18 ensure that the water quality meets the requirements of the health authority
19 with jurisdiction.

20 If there are no local (or state) water quality standards, then water quality must
21 meet the standards set by the Environmental Protection Agency (EPA), as
22 presented in the National Primary Drinking Water regulations in [40 CFR §§](#)
23 [141 and 142](#).

24 **(i) Requirements for Well Water Testing**

25 A well water test is required for, but not limited to, Properties:

- 26 • that are newly constructed;
- 27 • where an Appraiser has reported deficiencies with a well or the
- 28 well water;
- 29 • where water is reported to be unsafe or known to be unsafe;
- 30 • located in close proximity to dumps, landfills, industrial sites,
- 31 farms (pesticides) or other sites that could contain hazardous
- 32 wastes; or
- 33 • where the distance between well and septic system is less than 100
- 34 feet.

35 All testing must be performed by a disinterested third party. This includes
36 the collection and transport of the water sample collected at the water
37 supply source. The sample may be collected and tested by the local health

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1 authority, a commercial testing laboratory, a licensed sanitary engineer, or
 2 other party that is acceptable to the local health authority. At no time will
 3 the Borrower, owner or other Interested Party collect and/or transport the
 4 sample.

5 Requirements for the location of wells for FHA-insured Properties are
 6 located in [24 CFR § 200.926d\(f\)\(3\)](#).

7 The following tables provide the minimum distance required between
 8 wells and sources of pollution for an Existing Construction:

Individual Water Supply System for Minimum Property Requirements for Existing Construction*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Drain field/100 feet
4	Septic tank drain field reduced to 75 feet if allowed by local authority
5	If the subject Property line is adjacent to residential Property then local well distance requirements prevail. If the subject Property is adjacent to non-residential Property or roadway, there needs to be a separation distance of at least 10 feet from the property line.
* distance requirements of local authority prevail if greater than stated above	

9 The following provides the minimum requirements for water wells:

Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver a continuous water flow of five gallons per minute over at least a four-hour period

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Water Wells Minimum Property Requirements for Existing Construction	
1	Existing wells must deliver a continuous water flow at a minimum of three to five gallons per minute
2	No exposure to environmental contamination
3	Continuing supply of safe and potable water
4	Domestic hot water
5	Water quality must meet requirements of local jurisdiction or the EPA if no local standard

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1 **(ii) Required Documentation**

2 The Mortgagee must obtain a valid water test from the local health
3 authority or a lab qualified to conduct water testing in the jurisdictional
4 state or local authority.

5 **(c) Shared Wells**

6 The Mortgagee must confirm that a Shared Well:

- 7 • serves Properties that cannot feasibly be connected to an acceptable
8 public or Community Water Supply System;
- 9 • is capable of providing a continuous supply of water to involved
10 Dwelling Units so that each Existing Construction simultaneously will
11 be assured of at least three gallons per minute (five gallons per minute
12 for Proposed Construction) over a continuous four-hour period. (The
13 well itself may have a lesser yield if pressurized storage is provided in
14 an amount that will make 720 gallons of water available to each
15 connected existing dwelling during a continuous four-hour period or
16 1,200 gallons of water available to each proposed dwelling during a
17 continuous four-hour period. The shared well system yield must be
18 demonstrated by a certified pumping test or other means acceptable to
19 all agreeing parties.);
- 20 • provides safe and potable water. An inspection is required under the
21 same circumstances as an individual well. This may be evidenced by a
22 letter from the health authority having jurisdiction or, in the absence of
23 local health department standards, by a certified water quality analysis
24 demonstrating that the well water complies with the EPA’s National
25 Interim Primary Drinking Water Regulations;
- 26 • has a valve on each dwelling service line as it leaves the well so that
27 water may be shut off to each served dwelling without interrupting
28 service to the other Properties; and
- 29 • serves no more than four living units or Properties.

30 **(i) Requirements for Well Water Testing**

31 A well water test is required for, but not limited to, Properties:

- 32 • that are newly constructed;
- 33 • where an Appraiser has reported deficiencies with a well or the
34 well water;
- 35 • where water is reported to be unsafe or known to be unsafe;
- 36 • located in close proximity to dumps, landfills, industrial sites,
37 farms (pesticides) or other sites that could contain hazardous
38 wastes; or
- 39 • where the distance between well and septic system is less than 100
40 feet.

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1 All testing must be performed by a disinterested third party. This includes
 2 the collection and transport of the water sample collected at the water
 3 supply source. The sample may be collected and tested by the local health
 4 authority, a commercial testing laboratory, a licensed sanitary engineer, or
 5 other party that is acceptable to the local health authority. At no time will
 6 the Borrower, owner or other Interested Party collect and/or transport the
 7 sample.

8 For New and Existing Construction, the Mortgagee must ensure that the
 9 shared well agreement complies with the guidance provided in the
 10 following table.

Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
1	Require that the agreement is binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any Mortgagee holding a Mortgage on any Property connected to the Shared Well.
2	Permit well water sampling and testing by the local authority at the request of any party at any time.
3	Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties.
4	Ensure continuity of water service to “supplied” parties if the “supplying” party has no further need for the Shared Well system. (“Supplied” parties normally should assume all costs for their continuing water supply.)
5	Prohibit well water usage by any party for other than bona fide domestic purposes.
6	Prohibit connection of any additional living unit to the Shared Well system without: <ul style="list-style-type: none"> • the consent of all parties; • the appropriate amendment of the agreement; and • compliance with item 3.
7	Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet of the Shared Well.
8	Establish Easements for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection and testing.
9	Specify that no party may install landscaping or improvements that will impair use of the Easements.

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Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
10	Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties.
11	Establish the right of any party to act to correct an emergency in the absence of the other parties onsite. An emergency must be defined as failure of any shared portion of the system to deliver water upon demand.
12	Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved Property.
13	Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement, or improvement.
14	Require that any necessary replacement or improvement of a system element(s) will at least restore original system performance.
15	Specify required cost sharing for: <ul style="list-style-type: none"> • the energy supply for the well pump; • system maintenance, including repairs, testing, inspection, and disinfection; • system component replacement due to wear, obsolescence, incrustation, or corrosion; and • system improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection.
16	Specify that no party is responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared.
17	Require that each party be responsible for: <ul style="list-style-type: none"> • prompt repair of any detected leak in this water service line or plumbing system; • repair costs to correct system damage caused by a resident or guest at their Property; and • necessary repair or replacement of the service line connecting the system to the dwelling.
18	Require equal sharing of repair costs for system damage caused by persons other than a resident or guest at a Property sharing the well.
19	Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided.

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Item	Provisions that must be reflected in any acceptable shared well agreement include the following:
20	Ensure prompt collection from all parties and prompt payment of system operation, maintenance, replacement or improvement costs.
21	Specify that the recorded agreement may not be amended during the term of a federally-insured or -guaranteed Mortgage on any Property served, except as provided in items 5 and 11 above.
22	Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. Parties to the agreement must equally share arbitration costs.

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(ii) Required Documentation

The Mortgagee must obtain a valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority.

(16) Individual Residential Water Purification Systems

(a) Definition

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on Properties that otherwise do not have access to a continuous supply of safe and potable water.

(b) Standard

If a Property does not have access to a continuous supply of safe and potable water without the use of a water purification system, the Mortgagee must ensure that the Property has an individual residential water purification system as well as a service contract for the ongoing maintenance of the Property, a plan approved by the local or state health authority.

(i) Approved Equipment for Individual Residential Water Purification Systems

Water purification equipment must be approved by a nationally recognized testing laboratory acceptable to the local or state health authority. The Mortgagee must obtain a certification from a local or state health authority which certifies that:

- A point-of-entry or point-of-use water purification system is on the Property. If the system employs point-of-use equipment, the

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1 purification system must be employed on each water supply source
2 (faucet) serving the Property. Where point-of-entry systems are
3 used, separate water supply systems carrying untreated water for
4 flushing toilets may be constructed.

- 5 • The system is sufficient to ensure an uninterrupted supply of safe
6 and potable water adequate to meet household needs.
- 7 • The water supply, when treated by the equipment, meets the
8 requirements of the local or state health authority, and has been
9 determined to meet local or state quality standards for drinking
10 water. If neither state nor local standards are applicable, then
11 quality must be determined in accordance with standards set by the
12 Environmental Protection Agency (EPA) pursuant to the Safe
13 Drinking Water Act in [40 CFR Parts 141 and 142](#).
- 14 • A plan exists that provides for the monitoring, servicing,
15 maintenance, and replacement of the water equipment, and the
16 plan meets the service contract requirements.

17 **(ii) Borrower Notice of Water Purification System**

18 The Mortgagee must provide written notification to the Borrower that the
19 Property has a hazardous water supply that requires treatment in order to
20 remain safe and acceptable for human consumption. The notification to
21 the Borrower must identify specific contaminants in the water supply
22 serving the Property, and the related health hazard arising from the
23 presence of those contaminants.

24 The Mortgagee must ensure that the Borrower has received a written
25 estimate of the maintenance and replacement costs of the equipment
26 necessary to ensure continuous safe drinking water.

27 **(iii) Service Contract for Individual Residential Water Purification**
28 **Systems**

29 Before mortgage closing, the Mortgagee must ensure that the Borrower
30 has entered into a service contract with an organization or individual
31 specifically approved by the local or state health authority to carry out the
32 provisions of the required plan for the servicing, maintenance, repair, and
33 replacement of the water purification equipment.

34 **(iv) Approved Plan for Individual Residential Water Purification**
35 **Systems**

36 An approved plan is a contract entered into by the Borrower and
37 Mortgagee and approved by the local or state health authority, and that
38 sets out conditions as described below that must be met by the parties as a
39 condition to insurance of the HECM by HUD.

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1 The plan must set forth the respective responsibilities to be assumed by the
2 Borrower and the Mortgagee, as well as the other entities who will
3 implement the plan, such as the health authority and the service contractor.
4 In particular:

- 5 • The plan must set out the responsibilities of the health authority for
6 monitoring and enforcing the performance of the service
7 contractor, including any successor contractor that the health
8 authority may later have occasion to name. By its approval of the
9 plan, the health authority documents its acceptance of these
10 responsibilities, and the plan should so indicate.
- 11 • The plan must provide for the monitoring of the operation of the
12 water purification equipment, as well as for servicing (including
13 disinfecting) and repairing and replacing the system as frequently
14 as necessary, taking into consideration the system’s design,
15 anticipated use, and the type and level of contaminants present.
16 Installation, servicing, repair, and replacement of the water
17 purification system must be performed by an individual or
18 organization approved for this purpose by the local or state health
19 authority and identified in the plan. The plan must refer to specific
20 terms and conditions of the required service contract.
- 21 • Under the plan, responsibility for monitoring the performance of
22 the service contractor and for ensuring that the water purification
23 system is properly serviced, repaired, and replaced rests with the
24 local or state health authority that approved the plan. The plan
25 must confer on the health authority all powers necessary to effect
26 compliance by the service contractor. The health authority’s
27 powers must include the authority to notify the Borrower of any
28 noncompliance by the service contractor. The plan must provide
29 that upon any notification of noncompliance received from the
30 health authority, the Borrower may discharge the service
31 contractor for cause and appoint a successor organization or
32 individual as service contractor.
- 33 • The Mortgagee must ensure that any plan developed in accordance
34 with this section must provide that an analysis of the water supply
35 must be obtained from the local or state health authority no less
36 frequently than annually, but more frequently if determined at any
37 time to be necessary by the health authority or by the service
38 contractor.

39 The plan must provide that if the dwelling served by the water purification
40 system is refinanced, or is sold or otherwise transferred with a HUD-
41 insured Mortgage, the plan will:

- 42 • continue in full force and effect;

- impose an obligation on the Borrower to notify any subsequent purchaser or transferee of the necessity for the water purification system and for its proper maintenance; and
- require the Borrower to furnish the purchaser with a copy of the plan before any sales contract is signed.

(c) Required Documentation

(i) Borrower Notice of Water Purification System

A copy of the notification statement (including cost estimates), dated before the date of the sales contract and signed by the prospective Borrower to acknowledge its receipt, must accompany the submission for insurance endorsement. If a sales contract is signed in advance of the disclosure required by this paragraph, an addendum must be executed after the information is provided to the prospective Borrower and after they have acknowledged receipt of the disclosure.

(ii) Borrower's Certification of Water Purification System

At the time the application is signed, the Borrower must sign a [certification](#) acknowledging that the Property has a water purification system that must be maintained.

(iii) Approved Plan for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the approved plan is provided to HUD.

(iv) Service Contract for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the service contract signed by the Borrower is provided to HUD.

(v) Water Purification Equipment Rider for Individual Residential Water Purification Systems

The Mortgagee must ensure a copy of the Water Purification Equipment Rider is provided to HUD.

(17) Sewage System

The Mortgagee must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If

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1 connection costs to the public or community system are not reasonable, the
2 existing Onsite Sewage Disposal Systems are acceptable provided they are
3 functioning properly and meet the requirements of the local health department.

4 When the Onsite Sewage Disposal System is not sufficient and an off-site system
5 is available, the Mortgagee must confirm connection to an off-site sewage system.
6 When the Onsite Sewage Disposal System is not sufficient and an off-site system
7 is not available, the Mortgagee must reject the Property unless the Onsite Sewage
8 Disposal System is repaired or replaced and complies with local health
9 department standards.

10 **(18) Termites**

11 The Mortgagee must confirm that the Property is free of wood destroying insects
12 and organisms. If the appraisal is made subject to inspection by a qualified pest
13 control specialist, the Mortgagee must obtain such inspection and evidence of any
14 required treatment to confirm the Property is free of wood destroying insects and
15 organisms.

16 Soil poisoning is an unacceptable method for treating termites unless the
17 Mortgagee obtains satisfactory assurance that the treatment will not endanger the
18 quality of the water supply.

19 **(19) Special Airport Hazards**

20 If a Property is Existing Construction and is located within Runway Clear Zones
21 (also known as Runway Protection Zones) at civil airports or within Clear Zones
22 at military airfields, the Mortgagee must obtain a Borrower's acknowledgement
23 of the hazard.

24 Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may
25 be eligible for FHA mortgage insurance provided that the Mortgagee determines
26 that the Property complies with Department of Defense guidelines.

27 **(C) Minimum Required Repairs**

28 When the appraisal report or inspection from a qualified Entity indicates that repairs
29 are required to make the Property meet HUD's MPR, the Mortgagee must comply
30 with [Repair Requirements](#). Where major property deficiencies threaten the health and
31 safety of the homeowner and/or jeopardize the soundness and security of the
32 Property, all repairs must be completed prior to closing.

33 If repairs for the HECM Property can be completed after closing, the Mortgagee may
34 establish a Set-Aside account in accordance with [HECM Repair Set-Aside](#)
35 [Requirements](#).

1 **(1) Estimate of Required Repairs**

2 An estimate of the cost of required repairs must be provided by the Appraiser.
3 The Appraiser can determine that they are not qualified to make an accurate
4 determination of the repairs that are required or to estimate the cost of those
5 repairs. Under these circumstances, the Appraiser can request that the Mortgagee
6 have an inspection performed by an ICC RCI or CI. That inspector will then
7 determine what repairs are required and give an estimate of those repairs.

8 The Borrower may obtain the services of a general contractor to complete the
9 repairs.

10 **(2) Repair Set-Aside Requirements**

11 **(a) Definition**

12 Repair Set-Aside refers to an amount withheld from the HECM proceeds to
13 ensure completion of required property repairs.

14 **(b) Standard**

15 The Borrower must establish a Repair Set-Aside equal to 150 percent of the
16 cost of the repairs, plus the repair administration fee, when the required
17 repairs will be completed after closing. The Mortgagee may charge a repair
18 administration fee for this agreement not to exceed the greater of \$50 or 1 ½
19 percent of the amount advanced for repairs. This fee is paid to the Mortgagee
20 and is independent of the fees paid by the Borrower for compliance
21 inspections.

22 HECM proceeds placed in a Repair Set-Aside must not be held in an escrow
23 account.

24 The Borrower must complete the required repairs in a satisfactory manner,
25 within the time frame specified in the [Repair Rider](#), but not to exceed 12
26 months from the date of closing.

27 **(3) Required Repairs Estimated to Cost No More Than 15 Percent of**
28 **Maximum Claim Amount**

29 The Borrower may complete the required repairs after closing when the estimated
30 repairs cost no more than 15 percent of the MCA using a [Repair Set-Aside](#).

1 **(4) Required Repairs Estimated to Cost 15 Percent - 30 Percent of the**
2 **Maximum Claim Amount**

3 The Borrower must complete the required repairs before closing when the
4 estimated repairs cost between 15-30 percent of the MCA. The Mortgagee must
5 include required repairs on form [HUD-92800.5B](#) as a condition of closing.

6 The Borrower may have the repairs completed with the intention of paying the
7 contractors with HECM proceeds, Borrower funds, or a combination of HECM
8 proceeds and Borrower funds. However, any amounts owed must be paid at
9 closing and all liens removed at closing. Any amount owed must not exceed the
10 Initial Disbursement Limit or Borrower's Advance.

11 **(5) Required Repairs Estimated to Cost More than 30 Percent of the**
12 **Maximum Claim Amount**

13 The Mortgagee must submit the appraisal and information relating to the required
14 repairs to the Technical Branch of the Jurisdictional Homeownership Center
15 (HOC) for a determination as to the acceptability of the Property as collateral for
16 a HECM.

17 **(D) Leased Equipment**

18 The Mortgagee must ensure that the Property Value does not include the value of any
19 equipment, including an energy system, that is not fully owned by the Borrower. The
20 Mortgagee must review the terms of the lease on any equipment to ensure they do not
21 contain any unacceptable [Legal Restrictions on Conveyance \(Free Assumability\)](#).

22 **(E) Appraisal Review**

23 The Mortgagee must review the appraisal and ensure that it is complete, accurate, and
24 provides a credible analysis of the marketability and value of the Property.

25 When there are multiple appraisals, the underwriter must confirm the appraisal
26 selected by the HECM collateral risk assessment is used to complete the *Conditional*
27 *Commitment Direct Endorsement Statement of Appraised Value*, form [HUD-](#)
28 [92800.5B](#).

29 **(F) Quality of Appraisal**

30 The Mortgagee must evaluate the appraisal and ensure it complies with the
31 requirements in [Valuation and Reporting Protocols](#) (see this section in Handbook
32 4000.1), and any additional appraisal requirements that are specific to the subject
33 Property.

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1 **(G)Opinion of Market Value**

2 The Mortgagee must ensure the Market Value of the Property is sufficient to
3 adequately secure the FHA-insured HECM.

4 **(H)Reconsideration of Value**

5 The underwriter may request a reconsideration of value when the Appraiser did not
6 consider information that was relevant on the effective date of the appraisal. The
7 underwriter must provide the Appraiser with all relevant data that is necessary for a
8 reconsideration of value.

9 The Appraiser may charge an additional fee if the relevant data was not available on
10 the effective date of the appraisal. If the unavailability of data is not the fault of the
11 Borrower, the Borrower must not be held responsible for the additional costs. The
12 effective date of the appraisal is the date the Appraiser inspected the Property.

13 **b. Required Documentation for Underwriting the Property**

14 If additional inspections, repairs, or certifications are noted by the appraisal or are required to
15 demonstrate compliance with Property Acceptability Criteria, the Mortgagee must obtain
16 evidence of completion of such inspections, repairs, or certifications, and include the repair
17 cost estimate.

18 **c. Conditional Commitment Direct Endorsement Statement of Appraised Value**

19 The *Conditional Commitment Direct Endorsement Statement of Appraised Value* (form
20 [HUD-92800.5B](#)) provides the terms upon which the commitment/direct endorsement
21 statement of appraised value is made and the specific conditions that must be met before
22 HUD can endorse a *Firm Commitment* for mortgage insurance. The underwriter must
23 complete form HUD-92800.5B as directed in the form instructions.

24 The Mortgagee must provide a copy of the completed form [HUD-92800.5B](#) to the Borrower.

25 **5. Performing the Financial Assessment of the Borrower**

26 **a. Definition**

27 Financial Assessment refers to the Mortgagee's evaluation, performed by an underwriter, of
28 the Borrower's willingness and capacity to meet their financial obligations in a timely
29 manner, comply with the mortgage requirements, and determine if the HECM will be a
30 sustainable solution to the Borrower's financial circumstances.

31 **b. Credit History Review Requirements**

32 The Mortgagee must determine if the Borrower has demonstrated the willingness to timely
33 meet their financial obligations by analyzing the Borrower's credit history. The Mortgagee

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1 must take into consideration that some Borrowers seek a HECM due to financial difficulties,
2 which may be reflected on the Borrower’s credit report. The Mortgagee must also consider to
3 what extent the proceeds of the HECM could provide a solution to any such financial
4 difficulties.

5 Mortgagees must pay particular attention to situations where serious derogatory credit, such
6 as foreclosures, bankruptcies, defaults, late Mortgage Payments, or late payments for
7 Property Charges, are on the Borrower’s record. Where the Borrower has not demonstrated
8 the willingness to meet their financial obligations and no Extenuating Circumstances can be
9 documented, such circumstances must be viewed as especially significant events that call
10 into question the ability of the Borrower to manage their financial obligations.

11 **i. General Credit Requirements**

12 **(A) Borrower**

13 **(1) Standard**

14 The Mortgagee must analyze the Borrower’s credit history, liabilities, and debts
15 to determine the willingness of the Borrower to meet their financial obligations.
16 The Mortgagee must obtain either a Tri-Merged Credit Report (TRMCR) or a
17 Residential Mortgage Credit Report (RMCR) from an independent consumer
18 reporting agency.

19 **(2) Required Documentation**

20 The Mortgagee must obtain a credit report for each Borrower who will be
21 obligated on the mortgage Note. The Mortgagee may obtain a joint report for
22 individuals with joint accounts.

23 **(B) Eligible Non-Borrowing Spouse and Other Non-Borrowing Household**
24 **Member**

25 **(1) Definition**

26 Other Non-Borrowing Household Member refers to a person who occupies the
27 Property to be secured with the HECM who is not the spouse of the Borrower and
28 who is also not a Borrower.

29 **(2) Standard**

30 The Mortgagee must only obtain a credit report for an Eligible NBS or [Other](#)
31 [Non-Borrowing Household Member](#) when their income will be used as a
32 [Compensating Factor](#) or in reducing family size when determining if the
33 Borrower meets the applicable standard for [Residual Income](#).

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1 The credit report for an Other Non-Borrowing Household Member must indicate
2 the Other Non-Borrowing Household Member’s SSN, where an SSN exists, was
3 matched with the SSA, or the Mortgagee must provide either separate
4 documentation indicating that the SSN was matched with the SSA, or a statement
5 that the Other Non-Borrowing Household Member does not have an SSN. Where
6 an SSN does not exist for an Other Non-Borrowing Household Member, the
7 credit report must contain, at a minimum, the Other Non-Borrowing Household
8 Member’s full name, date of birth, and previous addresses for the last two years.

9 **(3) Required Documentation**

10 The Mortgagee must obtain a credit report for an Eligible NBS or Other Non-
11 Borrowing Household Member, if applicable.

12 **ii. Credit History**

13 If a traditional credit report is available, the Mortgagee must use a traditional credit
14 report.

15 If a traditional credit report is not available, and the Borrower is applying for a
16 Traditional or Refinance HECM, the Mortgagee is not required to develop the
17 Borrower’s credit history using the requirements for [non-traditional and insufficient](#)
18 [credit](#). The Borrower may be deemed to have an acceptable credit history.

19 If the TRMCR or RMCR generates a credit score, the Mortgagee must utilize traditional
20 credit history.

21 **(A) Requirements for the Credit Report**

22 Credit reports must obtain all information from at least two credit repositories
23 pertaining to credit, residence history, and public records information; be in an easy
24 to read and understandable format; and not require code translations. The credit report
25 may not contain whiteouts, erasures, or alterations. The Mortgagee must retain copies
26 of all credit reports.

27 The credit report must include:

- 28 • the name of the Mortgagee ordering the report;
- 29 • the name, address, and telephone number of the consumer reporting agency;
- 30 • the name and SSN of each Borrower; and
- 31 • the primary repository from which any particular information was pulled, for
32 each account listed.

33 A truncated SSN is acceptable for FHA mortgage insurance purposes, provided that
34 the mortgage application captures the full nine-digit SSN.

35 The credit report must also include:

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- 1 • all inquiries made within the last 90 Days;
- 2 • all credit and legal information not considered obsolete under the Fair Credit
- 3 Reporting Act (FCRA), including information for the last seven years, which
- 4 consumer reporting agencies have reported as verified and currently accurate,
- 5 regarding:
- 6 ○ bankruptcies;
- 7 ○ Judgments;
- 8 ○ lawsuits;
- 9 ○ foreclosures; and
- 10 ○ tax liens; and
- 11 • for each Borrower debt listed:
- 12 ○ the date the account was opened;
- 13 ○ high credit amount;
- 14 ○ required monthly payment amount;
- 15 ○ unpaid balance; and
- 16 ○ payment history.

17 **(B) Updated Credit Report or Supplement to the Credit Report**

18 The Mortgagee must obtain an updated credit report or supplement if the underwriter

19 identifies inconsistencies between any information in the HECM file and the original

20 credit report.

21 **(C) Credit Information Not Listed on Credit Report**

22 A Mortgagee must develop credit information separately for any open debt listed on

23 the HECM application but not referenced in the credit report by using the procedures

24 below for [Independent Verification of Non-Traditional Credit Providers](#).

25 **(D) Specific Requirements for Residential Mortgage Credit Report**

- 26 In addition to meeting the general credit report requirements, the RMCR must:
- 27 • provide a detailed account of the Borrower’s employment history;
- 28 • verify each Borrower’s current employment and income through an interview
- 29 with the Borrower’s employer or explain why such an interview was not
- 30 completed;
- 31 • contain a statement attesting to the certification of employment for each
- 32 Borrower and the date the information was verified; and
- 33 • report a credit history for each trade line within 90 Days of the credit report
- 34 for each account with a balance.

1 **(E) Independent Verification of Non-Traditional Credit Providers**

2 The Mortgagee may independently verify the Borrower’s credit references by
3 documenting the existence of the credit provider and that the provider extended credit
4 to the Borrower.

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

8 To verify credit information, the Mortgagee must:

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

13 To verify the Borrower’s rental payment history, the Mortgagee must obtain a rental
14 reference from the appropriate rental management company, provided the Borrower
15 is not renting from a Family Member, demonstrating the timing of payment of the
16 most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of
17 payment.

18 **iii. Evaluating Credit History**

19 **(A) General Credit**

20 The underwriter must examine the Borrower’s overall pattern of credit behavior, not
21 just isolated unsatisfactory or slow payments, to determine the Borrower’s ability to
22 manage their financial obligations.

23 The Mortgagee does not need to consider the credit history of an Eligible NBS or
24 [Other Non-Borrowing Household Member](#).

25 **(B) Types of Payment Histories**

26 The underwriter must evaluate the Borrower’s payment histories in the following
27 order: (1) previous housing expenses and related expenses, including utilities; (2)
28 installment debts; and (3) Revolving Charge Accounts.

29 **(1) Satisfactory Credit History**

30 The underwriter may consider a Borrower to have an acceptable payment history
31 if the Borrower has made all housing and installment debt payments on time for
32 the previous 12 months and has no more than two 30-Day late Mortgage
33 Payments or installment payments in the previous 24 months.

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1 The underwriter may approve the Borrower with an acceptable payment history if
2 the Borrower has no major derogatory credit on Revolving Charge Accounts in
3 the previous 12 months.

4 Major derogatory credit on Revolving Charge Accounts must include any
5 payments made more than 90 Days after the due date, or three or more payments
6 made more than 60 Days after the due date.

7 **(2) Credit Payment History Requiring Additional Analysis**

8 If a Borrower's credit history does not reflect satisfactory credit as stated above,
9 the Borrower's payment history requires additional analysis.

10 The Mortgagee must analyze the Borrower's delinquent accounts to determine
11 whether late payments were based on a disregard for financial obligations, an
12 inability to manage debt, or [Extenuating Circumstances](#). The Mortgagee must
13 document this analysis in the HECM file. Any explanation or documentation of
14 delinquent accounts must be consistent with other information in the file.

15 Where the Borrower has not met the requirements for satisfactory credit above,
16 and no [Extenuating Circumstances](#) can be documented, the Mortgagee must, at a
17 minimum, require a [Fully Funded Life Expectancy Set-Aside](#).

18 Where a Fully Funded LESA is required, Mortgagees must still determine if the
19 Borrower's credit history provides reasonable assurance that the Borrower can
20 effectively manage financial obligations even when real estate taxes and insurance
21 are paid directly by the Mortgagee through the LESA.

22 **(3) Extenuating Circumstances**

23 **(a) Definition**

24 Extenuating Circumstances refer to factors a Mortgagee may cite when the
25 Borrower's credit and/or property charge payment history does not meet the
26 criteria described in the [Satisfactory Credit History](#) and [Satisfactory Property](#)
27 [Charge Payment History](#) sections.

28 **(b) Standard**

29 Mortgagees must consider any Extenuating Circumstances that led to the
30 credit or property charge issues.

31 In order to be used to make a determination that credit and/or property charge
32 payment history is acceptable, documentation of Extenuating Circumstances
33 must demonstrate:

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- 1 • the connection between the specific occurrence(s) and the measurable
- 2 impact of the occurrence(s) on the Borrower’s finances;
- 3 • that no other actions, directly or indirectly related to the financial
- 4 problem, were taken by the Borrower that contributed to the
- 5 derogatory incident(s);
- 6 • the likelihood that these circumstances will not recur. In assessing the
- 7 likelihood that the circumstances will not recur, Mortgagees must
- 8 consider the impact of the HECM on the Borrower’s circumstances
- 9 through the elimination of financial obligations and/or through an
- 10 increase in Borrower income; and
- 11 • that the Borrower demonstrates financial liquidity through non-HECM
- 12 assets, additional sources of income not considered in the financial
- 13 assessment, or other documented factors that enhance their ability to
- 14 endure financial challenges.

15 Extenuating Circumstances may include, but are not limited to:

- 16 • loss of income due to the death or divorce of a spouse that directly
- 17 resulted in late payment of obligations;
- 18 • loss of income due to the Borrower’s or spouse’s unemployment,
- 19 reduced work hours or furloughs, or emergency medical treatment or
- 20 hospitalization that directly resulted in late payments of obligations; or
- 21 • increase in financial obligations due to emergency medical treatment
- 22 or hospitalization for the Borrower or spouse, emergency property
- 23 repairs not covered by homeowners or Flood Insurance, divorce, or
- 24 other causes that directly resulted in late payments of obligations.

25 **Unemployment as an Extenuating Circumstance**

26 If a Borrower cited loss of income due to unemployment as the cause of late

27 payments or other derogatory information, the Mortgagee must document the

28 actual reduction in income to determine the degree to which the Borrower’s

29 ability to meet their financial obligations was impacted.

30 The documentation must include the following:

- 31 • the Borrower documented satisfactory credit and/or property charge
- 32 payment history prior to being unemployed;
- 33 • the Borrower’s documented income, including any unemployment
- 34 compensation received, was insufficient to make timely payments on
- 35 all outstanding accounts;
- 36 • the credit report indicates that the Borrower did not incur new debt,
- 37 unrelated to the financial problem, that contributed to the Borrower’s
- 38 inability to meet all obligations in a timely manner; and
- 39 • the Borrower is employed again and/or has alternate sources of
- 40 income.

1 **(c) Required Documentation**

2 The Mortgagee must provide the following documentation:

- 3 • the credit report, evidencing satisfactory credit prior to the period of
- 4 unemployment;
- 5 • evidence of a satisfactory property charge payment history prior to the
- 6 period of unemployment;
- 7 • income tax returns for the year prior to and during the period of
- 8 unemployment, evidencing the total available income during the
- 9 period of unemployment, including any unemployment compensation;
- 10 • verification the Borrower is receiving income from re-employment
- 11 and/or has other replacement sources of income, which when
- 12 combined with other uninterrupted pre-existing income are sufficient
- 13 to allow the Borrower to meet their financial obligations in a timely
- 14 manner;
- 15 • supporting explanations from the Borrower; and
- 16 • any additional documentation upon which the Mortgagee relied to
- 17 support the loss of income, its impact on the Borrower’s credit history
- 18 and subsequent financial recovery.

19 **(C) Payment History on Housing Obligations**

20 **(1) Standard**

21 The Mortgagee must determine the Borrower’s Housing Obligation payment

22 history for their Principal Residence through:

- 23 • the credit report;
- 24 • verification of rent received directly from the landlord (for landlords with
- 25 no Identity of Interest with the Borrower);
- 26 • verification of Mortgage Payments received directly from the Servicer; or
- 27 • a review of canceled checks that cover the most recent 12-month period.

28 The Mortgagee must verify and document the previous 12 months of housing

29 payment history. For Borrowers who indicate they are living rent-free, the

30 Mortgagee must obtain verification from the property owner where they are

31 residing that the Borrower has been living rent-free and the amount of time the

32 Borrower has been living rent free.

33 An existing or prior Mortgage that has been modified must utilize the payment

34 history in accordance with the modification agreement for the time period of

35 modification in determining late housing payments.

36 A Mortgage that was subject to mortgage payment forbearance must utilize the

37 Mortgage Payment history in accordance with the Forbearance Plan for the time

38 period of the forbearance in determining late housing payments.

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1 Any Borrower who is granted a forbearance and is otherwise performing under
2 the terms of the Forbearance Plan is not considered to be delinquent for purposes
3 of analyzing credit history.

4 **(2) Required Documentation**

5 Where a Mortgage reflects payments under a modification or Forbearance Plan
6 within the 12 months prior to case number assignment, the Mortgagee must
7 obtain:

- 8 • a copy of the modification or Forbearance Plan; and
- 9 • evidence of the payment amount and date of payments during the
10 forbearance term.

11
12 A Forbearance Plan is not required if the forbearance was due to the impacts of
13 the COVID-19 National Emergency.

14 **(D) Collection Accounts**

15 **(1) Definition**

16 A Collection Account refers to a Borrower's loan or debt that has been submitted
17 to a collection agency by a creditor.

18 **(2) Standard**

19 The Mortgagee must determine if collection accounts were a result of:

- 20 • the Borrower's disregard for financial obligations;
- 21 • the Borrower's inability to manage debt; or
- 22 • [Extenuating Circumstances](#).

23 **(3) Required Documentation**

24 The Mortgagee must document reasons for approving a HECM when the
25 Borrower has any collection accounts.

26 The Borrower must provide a letter of explanation, which is supported by
27 documentation, for each outstanding collection account. The explanation and
28 supporting documentation must be consistent with other credit information in the
29 file.

1 **(E) Charge Off Accounts**

2 **(1) Definition**

3 Charge Off Account refers to a Borrower’s loan or debt that has been written off
4 by the creditor.

5 **(2) Standard**

6 The Mortgagee must determine if Charge Off Accounts were a result of:

- 7 • the Borrower’s disregard for financial obligations;
- 8 • the Borrower’s inability to manage debt; or
- 9 • [Extenuating Circumstances](#).

10 **(3) Required Documentation**

11 The Mortgagee must document reasons for approving a HECM when the
12 Borrower has any Charge Off Accounts.

13 The Borrower must provide a letter of explanation, which is supported by
14 documentation, for each outstanding Charge Off Account. The explanation and
15 supporting documentation must be consistent with other credit information in the
16 file.

17 **(F) Disputed Derogatory Credit Accounts**

18 **(1) Definition**

19 Disputed Derogatory Credit Account refers to disputed Charge Off Accounts,
20 disputed collection accounts, and disputed accounts with late payments in the last
21 24 months.

22 **(2) Standard**

23 The Mortgagee must analyze the documentation provided for consistency with
24 other credit information to determine if the Disputed Derogatory Credit Account
25 should be considered in the credit history review.

26 The following items may be excluded from consideration in the credit history
27 review:

- 28 • disputed medical accounts; and
- 29 • disputed derogatory credit resulting from identity theft, credit card theft or
30 unauthorized use.

1 **(3) Required Documentation**

2 If the credit report indicates that the Borrower is disputing derogatory credit
3 accounts, the Borrower must provide a letter of explanation and documentation
4 supporting the basis of the dispute.

5 If the disputed derogatory credit resulted from identity theft, credit card theft or
6 unauthorized use balances, the Mortgagee must obtain a copy of the police report
7 or other documentation from the creditor to support the status of the accounts.

8 **(G) Judgments**

9 **(1) Definition**

10 Judgment refers to any debt or monetary liability of the Borrower created by a
11 court, or other adjudicating body.

12 **(2) Standard**

13 The Mortgagee must verify that court-ordered Judgments are paid off prior to or
14 at closing.

15 Regardless of the amount of outstanding Judgments, the Mortgagee must
16 determine if the Judgment was a result of:

- 17 • the Borrower’s disregard for financial obligations;
- 18 • the Borrower’s inability to manage debt; or
- 19 • [Extenuating Circumstances](#).

20 **(3) Required Documentation**

21 The Mortgagee must provide the following documentation:

- 22 • evidence of payment in full, if paid prior to settlement; or
- 23 • the payoff statement, if paid at settlement.

24 **c. Property Charge Payment History Review Requirements**

25 **i. Definition**

26 Property Charges refer to obligations of the Borrower that include:

- 27 • property taxes;
- 28 • Hazard Insurance premiums;
- 29 • applicable Flood Insurance premiums;
- 30 • Ground Rents;
- 31 • Condominium Fees;
- 32 • Planned Unit Development (PUD) fees;
- 33 • Homeowners’ Association (HOA) Fees; and

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- 1 • other special assessments that may be levied by municipalities or state law.

2 **ii. Standard**

3 The Mortgagee must determine if the Borrower has demonstrated the willingness to
4 timely meet their financial obligations by analyzing the Borrower’s property charge
5 payment history. The Mortgagee must analyze each applicable Property Charge for the
6 preceding 24 months from the time of loan application. The Mortgagee must take into
7 consideration that some Borrowers seek a HECM due to financial difficulties, which may
8 be reflected on the Borrower’s property charge payment history. The Mortgagee must
9 also consider to what extent the proceeds of the HECM could provide a solution to any
10 such financial difficulties.

11 Where the Borrower owns no other real estate, and has changed their Principal Residence
12 within the last 24 months, the Mortgagee must review the property charge payment
13 history for the current Principal Residence and the most recent prior Principal
14 Residence(s) for a combined 24 months.

15 **(A) Property Taxes**

16 The Borrower’s property tax payment history from all taxing authorities, including
17 school, city, county, state, etc., must be verified for the preceding 24 months for all
18 owned real estate. Verification may be in the form of written statements or online
19 print-outs from the taxing authority or through copies of bills and canceled checks or
20 other equivalent proof of payment. Alternatively, the Mortgagee may obtain
21 verification from a third-party vendor.

22 Where the Mortgagee can document that property taxes were paid by the servicing
23 Mortgagee through an escrow account, Mortgagees may rely upon monthly mortgage
24 payment history reported on the credit report to establish property tax payment
25 history.

26 **Waiver or Deferral of Property Taxes**

27 Where a taxing authority has permanently waived or otherwise permanently
28 exempted the Borrower from payment of property taxes (i.e., taxes are not Due and
29 Payable and do not accrue or result in a first lien against the Property), such taxes
30 may be excluded from the expense analysis. Documentation for the waiver or
31 exemption must be placed in the case binder.

32 Where a Borrower is participating in a [Real Estate Tax Deferral Program](#), such taxes
33 may be excluded from the expense analysis. Documentation for the Real Estate
34 Deferral Program that supports the exclusion of property tax expenses from the
35 expense analysis must be placed in the case binder.

1 **(B) Hazard Insurance and Flood Insurance**

2 Mortgagees must determine whether the Property has Hazard Insurance and Flood
3 Insurance, if applicable. The Mortgagee must review and obtain verification of the
4 insurance payment history.

5 **(C) Ground Rent**

6 Mortgagees must obtain from the lessor or its management agent for all owned real
7 estate a written statement documenting payments, or copies of bills and canceled
8 checks for the preceding 24 months.

9 **(D) Condominium, PUD, and HOA Fees**

10 The Mortgagee must obtain verification of the Borrower's Condominium, PUD, or
11 HOA fee payment history for all owned real estate for the preceding 24 months from
12 the Entity levying the fee or its authorized agent. In lieu of direct verification, copies
13 of bills and canceled checks or equivalent proof of payment may be utilized.

14 **(E) Other Special Assessments**

15 Mortgagees must obtain for all owned real estate from the party levying the
16 assessment or its management agent a written statement documenting payments, or
17 copies of bills and canceled checks, or equivalent proof of payment for the preceding
18 24 months.

19 **iii. Satisfactory Property Charge Payment History**

20 The Mortgagee may consider the Borrower to have a satisfactory property charge
21 payment history where, at the time of loan application, all property taxes, HOA,
22 condominium, and PUD fees for all owned real estate are current and there were no
23 property charge arrearages in the previous 24 months.

24 If Hazard Insurance and Flood Insurance, if applicable, were not in place for the
25 Borrower's Principal Residence for the previous 12 months, the Borrower must obtain
26 coverage and prepay for 12 months at or before mortgage closing.

27 **iv. Property Charge Payment History Requiring Further Analysis**

28 If a Borrower's property charge payment history is not [satisfactory](#), the Borrower's
29 property charge payment history requires additional analysis.

30 The Mortgagee must determine whether late payments and/or the assessment of late fees
31 or penalties were based on a disregard for financial obligations, an inability to manage
32 debt, or [Extenuating Circumstances](#).

II. Origination through Post-Closing/Endorsement
B. Title II Insured Housing Programs Home Equity Conversion Mortgages
5. Performing the Financial Assessment of the Borrower

1 Where the Borrower has not demonstrated the willingness to meet their financial
2 obligations as stated in [Satisfactory Property Charge Payment History](#) and no
3 [Extenuating Circumstances](#) can be documented, the Mortgagee must, at a minimum,
4 require a [Fully Funded LESA](#).

5 Where a Fully Funded LESA is required, the Mortgagee must still determine, through the
6 financial assessment, that the HECM will provide the Borrower with a sustainable
7 solution, permitting the satisfaction of financial obligations in a timely manner.

8 **v. Required Documentation**

9 The Mortgagee must document the property charge payment history analysis in the
10 HECM file. Any explanation or documentation of late payments must be consistent with
11 other information in the file.

12 **d. Monthly Expense Analysis**

13 Monthly Expense Analysis refers to the analysis of the Borrower's monthly expenses
14 required to calculate [Residual Income](#).

15 **i. Monthly Expenses**

16 The Mortgagee must determine the Borrower's monthly expenses for the following:

- 17 • federal and state income taxes;
- 18 • Federal Insurance Contributions Act (FICA);
- 19 • [Property Charges](#) for the subject Property;
- 20 • estimated utility and maintenance expenses;
- 21 • installment account payments;
- 22 • any other owned property mortgage obligations (debt and Property Charges);
- 23 • revolving credit account payments;
- 24 • Alimony and Child Support payments;
- 25 • Judgments under payment plans against the Borrower; and
- 26 • payments required under any bankruptcy plans.

27 Where the Borrower benefits from federal, state, or local benefit programs that reduce
28 Borrower expenses, the reduced amounts may be used to calculate monthly expenses,
29 provided that the Mortgagee complies with the documentation requirements of
30 [Government Assistance Non-Cash Benefits](#).

31 **ii. Liens Paid Off at Closing**

32 When a lien against the Property is paid off at closing, the monthly payment associated
33 with that lien is not included in the Borrower's monthly expenses.

1 **iii. General Liabilities and Debts**

2 **(A) Standard**

3 The Mortgagee must determine the Borrower's monthly expenses by reviewing all
4 debts listed on the credit report, *RLARM*, part VI of the *URLA*, and other required
5 documentation.

6 All applicable monthly expenses must be considered in the monthly expense analysis.
7 Closed-end debts do not have to be included if they will be paid off within 10 months
8 and the cumulative payments of all such debts are less than or equal to 5 percent of
9 the Borrower's gross monthly income. The Borrower may not pay down the balance
10 in order to meet the 10-month requirement.

11 Accounts for which the Borrower is an authorized user must be included in a
12 Borrower's monthly expenses unless the Mortgagee can document that the primary
13 account holder has made all required payments on the account for the previous 12
14 months. If less than three payments have been required on the account in the previous
15 12 months, the payment amount must be included in the Borrower's monthly
16 expenses.

17 Negative income must be subtracted from the Borrower's gross monthly income, and
18 not treated as a recurring monthly liability unless otherwise noted.

19 Loans secured against deposited funds, where repayment may be obtained through
20 extinguishing the asset and these funds are not included in calculating the Borrower's
21 assets, are not required to be included in monthly expenses.

22 **(B) Required Documentation**

23 The Mortgagee must document that the funds used to pay off debts prior to closing
24 came from an [acceptable source](#) and the Borrower did not incur new debts that were
25 not included in the monthly expenses.

26 **(C) Undisclosed Debt and Inquiries**

27 **(1) Standard**

28 When a debt or obligation is revealed during the application process that was not
29 listed on the mortgage application and/or credit report, the Mortgagee must:

- 30 • verify the actual monthly payment amount;
- 31 • include the payment amount in the agreement in the Borrower's monthly
32 liabilities and debt; and
- 33 • determine that any unsecured funds borrowed were not/will not be used
34 for the Borrower's settlement requirements.

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages
5. Performing the Financial Assessment of the Borrower

1 The Mortgagee must obtain a written explanation from the Borrower for all
2 inquiries shown on the credit report that were made in the last 90 Days.

3 **(2) Required Documentation**

4 The Mortgagee must document all undisclosed debt and support for its analysis of
5 the Borrower's debt.

6 **(D) Federal Debt**

7 **(1) Definition**

8 Federal Debt refers to debt owed to the federal government for which regular
9 payments are being made.

10 **(2) Standard**

11 The amount of the required payment must be included in the calculation of the
12 Borrower's monthly expenses.

13 **(3) Required Documentation**

14 The Mortgagee must include documentation from the federal agency evidencing
15 the repayment agreement and verification of payments made, if applicable.

16 **(E) Alimony, Child Support, and Maintenance**

17 **(1) Definition**

18 Alimony, Child Support, and Maintenance are court-ordered or otherwise agreed
19 upon payments.

20 **(2) Standard**

21 For Alimony, if the Borrower's income was not reduced by the amount of the
22 monthly alimony obligation in the Mortgagee's calculation of the Borrower's
23 gross income, the Mortgagee must verify and include the monthly obligation in its
24 calculation of the Borrower's monthly expenses.

25 Child Support and Maintenance are to be treated as a recurring liability and the
26 Mortgagee must include the monthly obligation in the Borrower's liabilities and
27 monthly expenses.

28 **(3) Required Documentation**

29 The Mortgagee must obtain the official signed divorce decree, separation
30 agreement, maintenance agreement, or other legal order.

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5. Performing the Financial Assessment of the Borrower

1 The Mortgagee must also obtain the Borrower’s pay stubs covering no less than
2 28 consecutive Days to verify whether the Borrower is subject to any order of
3 garnishment relating to the Alimony, Child Support, and Maintenance.

4 **(4) Calculation of Monthly Obligation**

5 The Mortgagee must calculate the Borrower’s monthly obligation from the greater
6 of:

- 7 • the amount shown on the most recent decree or agreement establishing the
- 8 Borrower’s payment obligation; or
- 9 • the monthly amount of the garnishment.

10 **(F) Deferred Obligations**

11 **(1) Definition**

12 Deferred Obligations (excluding Student Loans) refer to liabilities that have been
13 incurred but where payment is deferred or has not yet commenced, including
14 accounts in forbearance.

15 **(2) Standard**

16 The Mortgagee must verify and include deferred obligations in the calculation of
17 the Borrower’s monthly expenses.

18 **(3) Required Documentation**

19 The Mortgagee must obtain written documentation of the deferral of the liability
20 from the creditor and evidence of the outstanding balance and terms of the
21 deferred liability. The Mortgagee must obtain evidence of the actual monthly
22 payment obligation, if available.

23 **(4) Calculation of Monthly Obligation**

24 The Mortgagee must use the actual monthly payment to be paid on a deferred
25 liability, whenever available.

26 If the actual monthly payment is not available for installment debt, the Mortgagee
27 must utilize the terms of the debt or 5 percent of the outstanding balance to
28 establish the monthly payment.

29 **(G) Student Loans**

30 **(1) Definition**

31 Student Loan refers to liabilities incurred for educational purposes.

1 **(2) Standard**

2 The Mortgagee must include all Student Loans in the Borrower’s monthly
3 expenses, regardless of the payment type or status of payments.

4 **(3) Required Documentation**

5 If the payment used for the monthly obligation is less than the monthly payment
6 reported on the Borrower’s credit report, the Mortgagee must obtain written
7 documentation of the actual monthly payment, the payment status, and evidence
8 of the outstanding balance and terms from the creditor or student loan servicer.

9 The Mortgagee may exclude the payment amount from the monthly debt
10 calculation where written documentation from the student loan program, creditor,
11 or student loan servicer indicates that the loan balance has been forgiven,
12 canceled, discharged, or otherwise paid in full.

13 **(4) Calculation of Monthly Obligation**

14 For outstanding Student Loans, regardless of the payment status, the Mortgagee
15 must use:

- 16 • the payment amount reported on the credit report or the actual documented
17 payment, when the payment amount is above zero; or
- 18 • 0.5 percent of the outstanding loan balance, when the monthly payment
19 reported on the Borrower’s credit report is zero.

20 Exception: Where a student loan payment has been suspended in accordance
21 with COVID-19 emergency relief, the Mortgagee may use the payment
22 amount reported on the credit report or the actual documented payment prior
23 to suspension, when that payment amount is above \$0.

24 **(H) Installment Loans**

25 **(1) Definition**

26 Installment Loans (excluding Student Loans) refer to loans, not secured by real
27 estate, that require the periodic payment of Principal and Interest (P&I). A loan
28 secured by an interest in a timeshare must be considered an Installment Loan.

29 **(2) Standard**

30 The Mortgagee must include the monthly payment shown on the credit report,
31 loan agreement or payment statement to calculate the Borrower’s monthly
32 expenses.

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1 If the credit report does not include a monthly payment for the loan, the
2 Mortgagee must use the amount of the monthly payment shown in the loan
3 agreement or payment statement.

4 **(3) Required Documentation**

5 If the monthly payment shown on the credit report is utilized to calculate the
6 monthly expenses, no further documentation is required.

7 If the credit report does not include a monthly payment for the loan, or the
8 payment reported on the credit report is greater than the payment on the loan
9 agreement or payment statement, the Mortgagee must obtain a copy of the loan
10 agreement or payment statement documenting the amount of the monthly
11 payment. If the credit report, loan agreement or payment statement shows a
12 deferred payment arrangement for an Installment Loan, refer to the [Deferred](#)
13 [Obligations](#) section.

14 **(I) Revolving Charge Accounts**

15 **(1) Definition**

16 A Revolving Charge Account refers to a credit arrangement that requires the
17 Borrower to make periodic payments but does not require full repayment by a
18 specified point of time.

19 **(2) Standard**

20 The Mortgagee must include the monthly payment shown on the credit report for
21 the Revolving Charge Account. Where the credit report does not include a
22 monthly payment for the account, the Mortgagee must use the payment shown on
23 the current account statement or 5 percent of the outstanding balance.

24 **(3) Required Documentation**

25 The Mortgagee must use the credit report to document the terms, balance and
26 payment amount on the account, if available.

27 Where the credit report does not reflect the necessary information on the charge
28 account, the Mortgagee must obtain a copy of the most recent charge account
29 statement or use 5 percent of the outstanding balance to document the monthly
30 payment.

1 **(J) 30-Day Accounts**

2 **(1) Definition**

3 A 30-Day Account refers to a credit arrangement that requires the Borrower to
4 pay off the outstanding balance on the account every month.

5 **(2) Standard**

6 The Mortgagee must verify the Borrower paid the outstanding balance in full on
7 every 30-Day Account each month for the past 12 months. 30-Day Accounts that
8 are paid monthly are not included in the Borrower's monthly expenses. If the
9 credit report reflects any late payments in the last 12 months, the Mortgagee must
10 utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be
11 included in the monthly expenses.

12 **(3) Required Documentation**

13 The Mortgagee must use the credit report to document that the Borrower has paid
14 the balance on the account monthly for the previous 12 months. The Mortgagee
15 must use the credit report to document the balance, and must document that funds
16 are available to pay off the balance.

17 **(K) Business Debt in Borrower's Name**

18 **(1) Definition**

19 Business Debt in Borrower's Name refers to liabilities reported on the Borrower's
20 personal credit report, but payment for the debt is attributed to the Borrower's
21 business.

22 **(2) Standard**

23 When business debt is reported on the Borrower's personal credit report, the debt
24 must be included in the monthly expenses, unless the Mortgagee can document
25 that the debt is being paid by the Borrower's business, and the debt was
26 considered in the cash flow analysis of the Borrower's business. The debt is
27 considered in the cash flow analysis where the Borrower's business tax returns
28 reflect a business expense related to the obligation, equal to or greater than the
29 amount of payments documented as paid out of company funds. Where the
30 Borrower's business tax returns show an interest expense related to the obligation,
31 only the interest portion of the debt is considered in the cash flow analysis.

1 **(3) Required Documentation**

2 When a self-employed Borrower states debt appearing on their personal credit
3 report is being paid by their business, the Mortgagee must obtain documentation
4 that the debt is paid out of company funds and that the debt was considered in the
5 cash flow analysis of the Borrower’s business.

6 **(L) Disputed Derogatory Credit Accounts**

7 **(1) Definition**

8 Disputed Derogatory Credit Accounts refer to disputed Charge Off Accounts,
9 disputed collection accounts, and disputed accounts with late payments in the last
10 24 months.

11 **(2) Standard**

12 If the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit
13 Accounts, the Mortgagee must include a monthly payment in the Borrower’s
14 monthly expenses calculation.

15 The following items are excluded from the cumulative balance:

- 16 • disputed medical accounts; and
- 17 • disputed derogatory credit resulting from identity theft, credit card theft, or
18 unauthorized use.

19 **(M) Non-Derogatory Disputed Account and Disputed Accounts Not Indicated**
20 **on the Credit Report**

21 **(1) Definition**

22 Non-Derogatory Disputed Accounts include the following types of accounts:

- 23 • disputed accounts with zero balance;
- 24 • disputed accounts with late payments aged 24 months or greater; or
- 25 • disputed accounts that are current and paid as agreed.

26 **(2) Standard**

27 If a Borrower is disputing non-derogatory accounts, or is disputing accounts
28 which are not indicated on the credit report as being disputed, the Mortgagee must
29 analyze the effect of the disputed accounts on the Borrower’s ability to repay the
30 loan. If the dispute results in the Borrower’s monthly debt payments utilized in
31 computing the monthly expenses being less than the amount indicated on the
32 credit report, the Borrower must provide documentation of the lower payments.

1 **(N) Contingent Liabilities**

2 **(1) Definition**

3 A Contingent Liability is a liability that may result in the obligation to repay only
4 where a specific event occurs. For example, a contingent liability exists when an
5 individual can be held responsible for the repayment of a debt if another legally
6 obligated party defaults on the payment. Contingent Liabilities may include
7 Cosigner liabilities and liabilities resulting from a mortgage assumption without
8 release of liability.

9 **(2) Standard**

10 The Mortgagee must include monthly payments on contingent liabilities in the
11 calculation of the Borrower's monthly expenses unless the Mortgagee verifies that
12 there is no possibility that the debt holder will pursue debt collection against the
13 Borrower, should the other party default or the other legally obligated party has
14 made 12 months of timely payments.

15 **(3) Required Documentation**

16 **(a) Mortgage Assumptions**

17 The Mortgagee must obtain the agreement creating the contingent liability or
18 assumption agreement and deed showing transfer of title out of the
19 Borrower's name.

20 **(b) Cosigned Liabilities**

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

25 **(c) Court Ordered Divorce Decree**

26 The Mortgagee must obtain a copy of the divorce decree ordering the spouse
27 to make payments.

28 **(4) Calculation of Monthly Obligation**

29 The Mortgagee must calculate the monthly payment on the contingent liability
30 based on the terms of the agreement creating the contingent liability.

1 **(O) Collection Accounts**

2 **(1) Definition**

3 A Collection Account refers to a Borrower’s loan or debt that has been submitted
4 to a collection agency by a creditor.

5 **(2) Standard**

6 If the credit reports used in the analysis show cumulative outstanding collection
7 account balances of \$2,000 or greater, the Mortgagee must:

- 8 • verify that the debt is paid in full at the time of or prior to settlement using
9 an [acceptable source of funds](#);
- 10 • verify that the Borrower has made payment arrangements with the
11 creditor; or
- 12 • if a payment arrangement is not available, calculate the monthly payment
13 using 5 percent of the outstanding balance of each collection and include
14 the monthly payment in the Borrower’s monthly expenses.

15 **(3) Required Documentation**

16 The Mortgagee must provide the following documentation:

- 17 • evidence of payment in full, if paid prior to settlement;
- 18 • the payoff statement, if paid at settlement; or
- 19 • the payment arrangement with creditor, if not paid prior to or at
20 settlement.

21 If the Mortgagee uses 5 percent of the outstanding balance, no documentation is
22 required.

23 **(P) Charge Off Accounts**

24 **(1) Definition**

25 Charge Off Account refers to a Borrower’s loan or debt that has been written off
26 by the creditor.

27 **(2) Standard**

28 Charge Off Accounts do not need to be included in the Borrower’s monthly
29 expenses.

1 **(Q) Private Savings Clubs**

2 **(1) Definition**

3 Private Savings Club refers to a non-traditional method of saving by making
4 deposits into a member-managed resource pool.

5 **(2) Standard**

6 If the Borrower is obligated to continue making ongoing contributions under the
7 pooled savings agreement, this obligation must be counted in the Borrowers’
8 monthly expenses.

9 The Mortgagee must verify and document the establishment and duration of the
10 Borrower’s membership in the club and the amount of the Borrower’s required
11 contribution to the club.

12 **(3) Required Documentation**

13 The Mortgagee must also obtain the club’s account ledgers and receipts, and
14 verification from the club treasurer that the club is still active.

15 **(R) Federal, State, and Local Income Taxes**

16 **(1) Definition**

17 Federal, State, and Local Income Taxes refer to taxes imposed by the federal,
18 state, and local governments on the Borrower’s Effective Income.

19 **(2) Standard**

20 Federal, state, and local income taxes must be included in monthly expenses.

21 **(3) Required Documentation**

22 Mortgagees may use current pay stubs, tax tables, or federal, state, and local tax
23 returns from the most recent tax year to document federal, state, and local income
24 taxes.

25 **(S) Utilities and Maintenance Expenses**

26 Mortgagees must rely on the formula established by Department of Veterans Affairs
27 (VA) for estimated maintenance and utilities in all states. Mortgagees should multiply
28 the living area of the Property (square feet) by \$0.14.

29 Mortgagees must use the figure for square feet from the Improvements section on
30 page 1 of the appraisal under Square Feet of Gross Living Area Above Grade.

1 **iv. Property Charges**

2 **(A) Property Taxes**

3 Mortgagees must document the amount of current year property taxes due from all
4 taxing authorities with written statements or online print-outs from the taxing
5 authorities, or copies of bills. If the current year's property tax bill is not available,
6 Mortgagees shall calculate monthly expenses based on 1.04 percent of the prior
7 year's tax bill.

8 Where property taxes are [deferred or waived](#), the amount of the property taxes may
9 be excluded from monthly expenses.

10 **(B) Hazard Insurance**

11 Mortgagees must obtain the current year's declaration sheet of the insurance policy. If
12 the current year's declaration sheet is not available, Mortgagees shall calculate
13 monthly expenses based on 1.04 percent of the prior year's premium.

14 Where no Hazard Insurance policy was previously in place, Mortgagees shall base the
15 cost of Hazard Insurance upon the insurance quote provided to the Borrower for the
16 cost of Hazard Insurance under the HECM.

17 **(C) Flood Insurance**

18 Mortgagees must obtain the current year's declaration sheet of the insurance policy. If
19 the current year's declaration sheet is not available, Mortgagees shall calculate
20 monthly expenses based on 1.04 percent of the prior year's premium.

21 Where no Flood Insurance policy was previously in place, Mortgagees shall base the
22 cost of Flood Insurance upon the insurance quote provided to the Borrower for the
23 cost of Flood Insurance under the HECM.

24 **(D) Condominium, PUD, and HOA Fees**

25 Mortgagees must obtain from the appraisal, or from a written statement from the
26 association or its management agent, documentation on the amount of the monthly
27 fees.

28 **(E) Ground Rents**

29 Mortgagees must obtain from the deed, the lessor, or its management agent a written
30 statement documenting the amount of the ground rent payment.

1 **(F) Other Assessments**

2 Mortgagees must obtain from the party levying the assessment or its management
3 agent a written statement documenting the amount of any other assessments.

4 **(G) Obligations Not Considered Debt**

5 Obligations not considered debt include:

- 6 • medical collections;
- 7 • automatic deductions from savings, when not associated with another type of
8 obligation;
- 9 • retirement contributions, such as 401(k) accounts;
- 10 • collateralized loans secured by depository accounts;
- 11 • child care;
- 12 • commuting costs;
- 13 • union dues;
- 14 • insurance, other than property insurance;
- 15 • open accounts with zero balances; and
- 16 • voluntary deductions, when not associated with another type of obligation.

17 **e. Effective Income Analysis**

18 **i. Definition**

19 Effective Income Analysis refers to the calculation of Effective Income used to calculate
20 [Residual Income](#). Effective Income must be reasonably likely to continue through at least
21 the first three years of the HECM, and meet the specific requirements described below.

22 **ii. General Income Requirements**

23 The Mortgagee must document the Borrower's income and employment history, verify
24 the accuracy of the amounts of income reported, and determine if the income can be
25 considered as Effective Income in accordance with the requirements listed below.

26 The Mortgagee may only consider income if it is legally derived and, when required,
27 properly reported as income on the Borrower's tax returns.

28 Negative income must be subtracted from the Borrower's gross monthly income and not
29 treated as a recurring monthly liability unless otherwise noted.

30 If the Mortgagee can determine that the Borrower's Residual Income meets the
31 [applicable standard](#) for their family size and geographic region based on documentation
32 for one or more specific sources described below, it need not pursue documentation for
33 additional sources of income.

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1 If FHA requires tax returns as required documentation for any type of Effective Income,
2 the Mortgagee must also analyze the tax returns in accordance with [Appendix 2.0 –](#)
3 [Analyzing IRS Forms](#).

4 **(A) Employment Income**

5 **(1) Definition**

6 Employment Income refers to income received as an employee of a business that
7 is reported on IRS Form W-2.

8 **(2) Standard**

9 The Mortgagee may use Employment Income as Effective Income in accordance
10 with the standards provided for each type of Employment Income.

11 **(3) Required Documentation**

12 For all Employment Income, the Mortgagee must verify the Borrower's most
13 recent two years of employment and income, and document using either the
14 Traditional or Alternative method, and past employment as applicable.

15 **(a) Traditional Current Employment Documentation**

16 The Mortgagee must obtain one of the following to verify current employment
17 and income:

- 18 • the most recent pay stubs covering a minimum of 30 consecutive Days
19 (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28
20 consecutive Days) that show the Borrower's year-to-date earnings, and
21 a written Verification of Employment (VOE) covering two years; or
- 22 • direct electronic verification of employment by a TPV vendor
23 covering two years, subject to the following requirements:
 - 24 ○ the Borrower has authorized the Mortgagee to verify income and
25 employment; and
 - 26 ○ the date of the data contained in the completed verification
27 conforms with FHA requirements at [Maximum Age of HECM](#)
28 [Documents](#).

29 Re-verification of employment must be completed within 10 Days prior to
30 mortgage Disbursement. Verbal or electronic re-verification of employment is
31 acceptable. Electronic re-verification employment data must be current within
32 30 days of the date of the verification.

33 **(b) Alternative Current Employment Documentation**

34 If using alternative documentation, the Mortgagee must:

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- obtain copies of the pay stubs covering the most recent 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower'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-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

(c) Past Employment Documentation

Direct verification of the Borrower's employment and income 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 to qualify (no Overtime, Bonus, or Tip Income); and
- the Borrower executes [IRS Form 4506](#), *Request for Copy of Tax Return*, [IRS Form 4506-C](#), *IVES Request for Transcript of Tax Return*, or [IRS Form 8821](#), *Tax Information Authorization*, for the previous two tax years.

If the applicant 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 applicant's employment history:

- W-2(s);
- Written VOE(s);
- direct verification of employment by a TPV vendor, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify income and employment;
 - the date of the completed verification conforms with FHA requirements at [Maximum Age of HECM Documents](#); or
- evidence supporting enrollment in school or the military during the most recent two full years.

1 **(B) Primary Employment**

2 **(1) Definition**

3 Primary Employment is the Borrower’s principal employment, unless the income
4 falls within a specific category identified below. Primary employment is generally
5 full-time employment and may be either salaried or hourly.

6 **(2) Standard**

7 The Mortgagee may use primary Employment Income as Effective Income.

8 **(3) Calculation of Effective Income**

9 **(a) Salary**

10 For employees who are salaried and whose income has been and will likely be
11 consistently earned, the Mortgagee must use the current salary to calculate
12 Effective Income.

13 **(b) Hourly**

14 For employees who are paid hourly, and whose hours do not vary, the
15 Mortgagee must consider the Borrower’s current hourly rate to calculate
16 Effective Income.

17 For employees who are paid hourly and whose hours vary, the Mortgagee
18 must average the income over the previous two years. If the Mortgagee can
19 document an increase in pay rate the Mortgagee may use the most recent 12-
20 month average of hours at the current pay rate.

21 **(C) Part-Time Employment**

22 **(1) Definition**

23 Part-Time Employment refers to employment that is not the Borrower’s primary
24 employment and is generally performed for less than 40 hours per week.

25 **(2) Standard**

26 The Mortgagee may use Employment Income from Part-Time Employment as
27 Effective Income if the Borrower has worked a part-time job uninterrupted for the
28 past two years and the current position is reasonably likely to continue.

1 **(3) Calculation of Effective Income**

2 The Mortgagee must average the income over the previous two years. If the
3 Mortgagee can document an increase in pay rate, the Mortgagee may use a 12-
4 month average of hours at the current pay rate.

5 **(D) Overtime, Bonus, or Tip Income**

6 **(1) Definition**

7 Overtime, Bonus, or Tip Income refers to income that the Borrower receives in
8 addition to the Borrower's normal salary.

9 **(2) Standard**

10 The Mortgagee may use Overtime, Bonus, or Tip Income as Effective Income if
11 the Borrower has received this income for the past two years and it is reasonably
12 likely to continue.

13 Periods of Overtime, Bonus or Tip Income less than two years may be considered
14 Effective Income if the Mortgagee documents that the Overtime, Bonus or Tip
15 Income has been consistently earned over a period of not less than one year and is
16 reasonably likely to continue.

17 **(3) Calculation of Effective Income**

18 For employees with Overtime, Bonus or Tip Income, the Mortgagee must
19 calculate the Effective Income by using the lesser of:

- 20 • the average Overtime, Bonus or Tip Income earned over the previous two
21 years, or, if less than two years, the length of time Overtime, Bonus or Tip
22 Income has been earned; or
- 23 • the average Overtime, Bonus or Tip Income earned over the previous year.

24 **(E) Seasonal Employment**

25 **(1) Definition**

26 Seasonal Employment refers to employment that is not year round, regardless of
27 the number of hours per week the Borrower works on the job.

28 **(2) Standard**

29 The Mortgagee may consider Employment Income from Seasonal Employment as
30 Effective Income if the Borrower has worked the same line of work for the past
31 two years and is reasonably likely to be rehired for the next season. The

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1 Mortgagee may consider unemployment income as Effective Income for those
2 with Effective Income from Seasonal Employment.

3 **(3) Required Documentation**

4 For seasonal employees with unemployment income, the Mortgagee must
5 document the unemployment income for two full years and there must be
6 reasonable assurance that this income will continue.

7 **(4) Calculation of Effective Income**

8 For employees with Employment Income from Seasonal Employment, the
9 Mortgagee must average the income earned over the previous two full years to
10 calculate Effective Income.

11 **(F) Employer Housing Subsidy**

12 **(1) Definition**

13 Employer Housing Subsidy refers to employer-provided mortgage assistance.

14 **(2) Standard**

15 The Mortgagee may utilize Employer Housing Subsidy as Effective Income.

16 **(3) Required Documentation**

17 The Mortgagee must verify and document the existence and the amount of the
18 housing subsidy.

19 **(4) Calculation of Effective Income**

20 For employees receiving an Employer Housing Subsidy, the Mortgagee may add
21 the Employer Housing Subsidy to the total Effective Income.

22 **(G) Employed by Family-Owned Business**

23 **(1) Definition**

24 Family-Owned Business Income refers to Employment Income earned from a
25 business owned by the Borrower's family, but in which the Borrower is not an
26 owner.

27 **(2) Standard**

28 The Mortgagee may consider Family-Owned Business Income as Effective
29 Income if the Borrower is not an owner in the family-owned business.

1 **(3) Required Documentation**

2 The Mortgagee must verify and document that the Borrower is not an owner in
3 the family-owned business by using official business documents showing the
4 ownership percentage.

5 Official business documents include corporate resolutions or other business
6 organizational documents, business tax returns or [Schedule K-1\(IRS Form 1065\)](#),
7 *U.S. Return of Partnership Income*, or an official letter from a certified public
8 accountant on their business letterhead.

9 In addition to traditional or alternative documentation requirements, the
10 Mortgagee must obtain copies of signed personal tax returns or tax transcripts.

11 **(4) Calculation of Effective Income**

12 **(a) Salary**

13 For employees who are salaried and whose income has been and will likely
14 continue to be consistently earned, the Mortgagee must use the current salary
15 to calculate Effective Income.

16 **(b) Hourly**

17 For employees who are paid hourly, and whose hours do not vary, the
18 Mortgagee must consider the Borrower's current hourly rate to calculate
19 Effective Income.

20 For employees who are paid hourly and whose hours vary, the Mortgagee
21 must average the income over the previous two years. If the Mortgagee can
22 document an increase in pay rate the Mortgagee may use the most recent 12-
23 month average of hours at the current pay rate.

24 **(H) Commission Income**

25 **(1) Definition**

26 Commission Income refers to income that is paid contingent upon the conducting
27 of a business transaction or the performance of a service.

28 **(2) Standard**

29 The Mortgagee may use Commission Income as Effective Income if the Borrower
30 earned the income for at least one year in the same or similar line of work and it is
31 reasonably likely to continue.

1 **(3) Required Documentation**

2 For all Commission Income, the Mortgagee must use traditional or alternative
3 employment documentation.

4 **(4) Calculation of Effective Income**

5 The Mortgagee must calculate Effective Income for commission by using the
6 lesser of either:

- 7 • the average Commission Income earned over the previous two years for
8 Commission Income earned for two years or more, or the length of time
9 Commission Income has been earned if less than two years; or
- 10 • the average Commission Income earned over the previous one year.

11 **(I) Self-Employment Income**

12 **(1) Definition**

13 Self-Employment Income refers to income generated by a business in which the
14 Borrower has a 25 percent or greater ownership interest.

15 There are four basic types of business structures. They include:

- 16 • sole proprietorship;
- 17 • corporations;
- 18 • limited liability or “S” corporations; and
- 19 • partnerships.

20 **(2) Standard**

21 **(a) Minimum Length of Self-Employment**

22 The Mortgagee may consider Self-Employment Income if the Borrower has
23 been self-employed for at least two years.

24 If the Borrower has been self-employed between one and two years, the
25 Mortgagee may only consider the income as Effective Income if the Borrower
26 was previously employed in the same line of work in which the Borrower is
27 self-employed or in a related occupation for at least two years.

28 **(b) Stability of Self-Employment Income**

29 Income obtained from businesses with annual earnings that are stable or
30 increasing is acceptable. If the income from businesses shows a greater than
31 20 percent decline in Effective Income over the analysis period, the
32 Mortgagee must document that the business income is now stable.

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1 A Mortgagee may consider income as stable after a 20 percent reduction if the
2 Mortgagee can document the reduction in income was the result of an
3 Extenuating Circumstance, and the Borrower can demonstrate the income has
4 been stable or increasing for a minimum of 12 months.

5 **(3) Required Documentation**

6 **(a) Individual and Business Tax Returns**

7 The Mortgagee must obtain signed, completed individual and business federal
8 income tax returns for the most recent two years, including all schedules.

9 In lieu of signed individual or business tax returns from the Borrower, the
10 Mortgagee may obtain a signed [IRS Form 4506](#), *Request for Copy of Tax*
11 *Return*, [IRS Form 4506-C](#), *IVES Request for Transcript of Tax Return*, or [IRS](#)
12 [Form 8821](#), *Tax Information Authorization*, and tax transcripts directly from
13 the IRS.

14 **(b) Profit & Loss Statements and Balance Sheets**

15 The Mortgagee must obtain a year-to-date Profit and Loss (P&L) statement
16 and balance sheet if more than a calendar quarter has elapsed since the date of
17 the most recent calendar or fiscal year-end tax period. A balance sheet is not
18 required for self-employed Borrowers filing Schedule C income.

19 If income used to qualify the Borrower exceeds the two-year average of tax
20 returns, an audited P&L or signed quarterly tax return obtained from the IRS
21 is required.

22 **(c) Business Credit Reports**

23 The Mortgagee must obtain a business credit report for all corporations and
24 “S” corporations.

25 **(4) Calculation of Effective Income**

26 The Mortgagee must analyze the Borrower’s tax returns to determine gross Self-
27 Employment Income. Requirements for analyzing self-employment
28 documentation are found in [Analyzing IRS Forms](#) (Appendix 2.0 of Handbook
29 4000.1).

30 The Mortgagee must calculate gross Self-Employment Income by using the lesser
31 of:

- 32
 - the average gross Self- Employment Income earned over the previous two

33 years; or

- the average gross Self-Employment Income earned over the previous one year.

(J) Additional Required Analysis of Stability of Employment Income

(1) Frequent Changes in Employment

If the Borrower has changed employers 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 Borrower's Employment Income. Additional analysis is not required for fields of employment that regularly require a Borrower to work for various employers (such as Temp Companies or Union Trades). 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.

(2) Analysis of Stability of Employment

(a) Addressing Gaps in Employment

For Borrowers with gaps in employment of six months or more (an extended absence), the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document:

- the Borrower 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.

(b) Returning to Work After Retirement

Mortgagees may consider the income of Borrowers who have returned to work after retirement of more than two years if it can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment;
- the Borrower intends to continue working; and
- the Borrower's employer expects the Borrower's employment to continue.

(3) Addressing Temporary Reduction in Income

For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Mortgagee may consider the Borrower's current income as Effective Income if it can verify and document that:

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- the Borrower intends to return to work;
- the Borrower has the right to return to work; and
- the Borrower meets the applicable [Residual Income standard](#) for their family size and geographic region, taking into account any reduction of income due to the circumstance.

Required Documentation

The Mortgagee must provide the following documentation for Borrowers on temporary leave:

- a written statement from the Borrower confirming the Borrower’s intent to return to work, and the intended date of return;
- documentation generated by current employer confirming the Borrower’s eligibility to return to current employer after temporary leave; and
- documentation of sufficient liquid assets, in accordance with [Sources of Funds](#) used to supplement the Borrower’s income through intended date of return to work with current employer.

(K) Other Sources of Effective Income

(1) Disability Benefits

(a) Definition

Disability Benefits refer to benefits received from the SSA, VA, or a private disability insurance provider.

(b) Required Documentation

The Mortgagee must verify and document the Borrower’s receipt of benefits from the SSA, VA, or private disability insurance provider. The Mortgagee must obtain documentation that establishes award benefits to the Borrower.

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. 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. 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.

Under no circumstance may the Mortgagee inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

1 **(i) Social Security Disability**

2 For Social Security Disability income, including Supplemental Security
3 Income (SSI), the Mortgagee must obtain a copy of the last Notice of
4 Award letter, or an equivalent document that establishes award benefits to
5 the Borrower, and one of the following documents:

- 6 • federal tax returns;
- 7 • the most recent bank statement evidencing receipt of income from
8 the SSA;
- 9 • a Proof of Income Letter, also known as a “Budget Letter” or
10 “Benefits Letter” that evidences income from the SSA; or
- 11 • a copy of the Borrower’s form SSA-1099/1042S, *Social Security*
12 *Benefit Statement*.

13 **(ii) VA Disability**

14 For VA disability benefits, the Mortgagee must obtain from the Borrower
15 a copy of the veteran’s last Benefits Letter showing the amount of the
16 assistance, and one of the following documents:

- 17 • federal tax returns; or
- 18 • the most recent bank statement evidencing receipt of income from
19 the VA.

20 If the Benefits Letter does not have a defined expiration date, the
21 Mortgagee may consider the income effective and reasonably likely to
22 continue for at least three years.

23 **(iii) Private Disability**

24 For private disability benefits, the Mortgagee must obtain documentation
25 from the private disability insurance provider showing the amount of the
26 assistance and the expiration date of the benefits, if any, and one of the
27 following documents:

- 28 • federal tax returns; or
- 29 • the most recent bank statement evidencing receipt of income from
30 the insurance provider.

31 **(c) Calculation of Effective Income**

32 The Mortgagee must use the most recent amount of benefits received to
33 calculate Effective Income.

1 **(2) Alimony, Child Support, and Maintenance Income**

2 **(a) Definition**

3 Alimony, Child Support, and Maintenance Income refers to income received
4 from a former spouse or partner or from a non-custodial parent of the
5 Borrower's minor dependent.

6 **(b) Required Documentation**

7 The Mortgagee must obtain a fully executed copy of the Borrower's final
8 divorce decree, legal separation agreement, court order, or voluntary payment
9 agreement with documented receipt.

10 When using a final divorce decree, legal separation agreement or court order,
11 the Mortgagee must obtain evidence of receipt using deposits on bank
12 statements; canceled checks; or documentation from the child support agency
13 for the most recent three months that supports the amount used in qualifying.

14 The Mortgagee must document the voluntary payment agreement with 12
15 months of canceled checks, deposit slips, or tax returns.

16 The Mortgagee must provide evidence that the claimed income will continue
17 for at least three years. The Mortgagee may use the front and pertinent pages
18 of the divorce decree, settlement agreement, or court order showing the
19 financial details.

20 **(c) Calculation of Effective Income**

21 When using a final divorce decree, legal separation agreement, or court order,
22 if the Borrower has received consistent Alimony, Child Support, and
23 Maintenance Income for the most recent three months, the Mortgagee may use
24 the current payment to calculate Effective Income.

25 When using evidence of voluntary payments, if the Borrower has received
26 consistent Alimony, Child Support, and Maintenance Income for the most
27 recent six months, the Mortgagee may use the current payment to calculate
28 Effective Income.

29 If the Alimony, Child Support, and Maintenance Income have not been
30 consistently received for the most recent six months, the Mortgagee must use
31 the average of the income received over the previous two years to calculate
32 Effective Income. If Alimony, Child Support, and Maintenance Income have
33 been received for less than two years, the Mortgagee must use the average
34 over the time of receipt.

1 **(3) Military Income**

2 **(a) Definition**

3 Military Income refers to income received by military personnel during their
4 period of active, Reserve, or National Guard service, including:

- 5 • base pay
- 6 • Basic Allowance for Housing
- 7 • clothing allowances
- 8 • flight or hazard pay
- 9 • Basic Allowance for Subsistence
- 10 • proficiency pay

11 The Mortgagee may not use education benefits as Effective Income.

12 **(b) Required Documentation**

13 The Mortgagee must obtain a copy of the Borrower’s military Leave and
14 Earnings Statement (LES). The Mortgagee must verify the Expiration Term of
15 Service date on the LES. If the Expiration Term of Service date is within the
16 first 12 months of the HECM, Military Income may only be considered
17 Effective Income if the Borrower represents their intent to continue military
18 service.

19 **(c) Calculation of Effective Income**

20 The Mortgagee must use the current amount of Military Income received to
21 calculate Effective Income.

22 **(4) Other Public Assistance**

23 **(a) Definition**

24 Public Assistance refers to income received from government assistance
25 programs.

26 **(b) Required Documentation**

27 Mortgagees must verify and document the income received from the
28 government agency.

29 If any Public Assistance income is due to expire within three years from the
30 date of mortgage application, that income cannot be used as Effective Income.
31 If the documentation does not have a defined expiration date, the Mortgagee
32 may consider the income effective and reasonably likely to continue.

1 **(c) Calculation of Effective Income**

2 The Mortgagee must use the current rate of Public Assistance received to
3 calculate Effective Income.

4 **(5) Automobile Allowances**

5 **(a) Definition**

6 Automobile Allowance refers to the funds provided by the Borrower’s
7 employer for automobile related expenses.

8 **(b) Required Documentation**

9 The Mortgagee must verify and document the Automobile Allowance
10 received from the employer for the previous two years.

11 **(c) Calculation of Effective Income**

12 The Mortgagee must use the full amount of the Automobile Allowance to
13 calculate Effective Income.

14 **(6) Retirement Income**

15 Retirement Income refers to income received from Pensions, 401(k) distributions,
16 and Social Security.

17 **(a) Social Security Income**

18 **(i) Definition**

19 Social Security Income or Supplemental Security Income (SSI) refers to
20 income received from the SSA other than disability income.

21 **(ii) Required Documentation**

22 The Mortgagee must verify and document the Borrower’s receipt of
23 income from the SSA.

24 For SSI, the Mortgagee must obtain any one of the following documents:

- 25 • federal tax returns;
- 26 • the most recent bank statement evidencing receipt of income from
27 the SSA;
- 28 • a Proof of Income Letter, also known as a “Budget Letter” or
29 “Benefits Letter” that evidences income from the SSA; or
- 30 • a copy of the Borrower’s SSA Form-1099/1042S, *Social Security*
31 *Benefit Statement.*

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1 If the Notice of Award letter or equivalent document specifies a future
2 date for receipt of income, this income may only be considered effective
3 on the specified start date.

4 **(iii) Calculation of Effective Income**

5 The Mortgagee must use the current amount of Social Security Income
6 received to calculate Effective Income.

7 **(b) Pension**

8 **(i) Definition**

9 Pension refers to income received from the Borrower's former
10 employer(s).

11 **(ii) Required Documentation**

12 The Mortgagee must verify and document the Borrower's receipt of
13 periodic payments from the Borrower's Pension and that the payments are
14 likely to continue for at least three years.

15 The Mortgagee must obtain any one of the following documents:

- 16 • federal tax returns;
- 17 • the most recent bank statement evidencing receipt of income from
- 18 the former employer; or
- 19 • a copy of the Borrower's Pension/retirement letter from the former
- 20 employer.

21 **(iii) Calculation of Effective Income**

22 The Mortgagee must use the current amount of Pension income received
23 to calculate Effective Income. If the source of the Pension income is a
24 municipal, state or the federal government, the Mortgagee must consider
25 the income reasonably likely to continue. The Mortgagee is not required to
26 request additional documentation from the Borrower to demonstrate
27 continuance of income from government Pension income.

28 **(c) Individual Retirement Account and 401(k)**

29 **(i) Definition**

30 Individual Retirement Account (IRA)/401(k) Income refers to income
31 received from an IRA.

1 **(ii) Required Documentation**

2 The Mortgagee must verify and document the Borrower’s receipt of
3 recurring IRA/401(k) distribution Income and that it is reasonably likely to
4 continue for three years.

5 The Mortgagee must obtain the most recent IRA/401(k) statement and any
6 one of the following documents:

- 7 • federal tax returns; or
- 8 • the most recent bank statement evidencing receipt of income.

9 **(iii) Calculation of Effective Income**

10 For Borrowers with IRA/401(k) Income that has been and will be
11 consistently received, the Mortgagee must use the current amount of IRA
12 Income received to calculate Effective Income. For Borrowers with
13 fluctuating IRA/401(k) Income, the Mortgagee must use the average of the
14 IRA/401(k) Income received over the previous two years to calculate
15 Effective Income. If IRA/401(k) Income has been received for less than
16 two years, the Mortgagee must use the average over the time of receipt.

17 **(7) Rental Income**

18 **(a) Definition**

19 Rental Income refers to income received or to be received from the subject
20 Property or other real estate holdings.

21 **(b) Rental Income Received from the Subject Property**

22 **(i) Standard**

23 The Mortgagee may consider Rental Income from existing and
24 prospective tenants if documented in accordance with the following
25 requirements.

26 Rental Income from the subject Property may be considered Effective
27 Income when the Property is a two- to four-unit dwelling.

28 No income from commercial space may be included in Rental Income
29 calculations.

30 **(ii) Required Documentation**

31 Required documentation varies depending upon the length of time the
32 Borrower has owned the Property.

1 **Limited or No History of Rental Income**

2 Where the Borrower does not have a history of Rental Income from the
3 subject since the previous tax filing, the Mortgagee must verify and
4 document the proposed Rental Income by obtaining an appraisal showing
5 fair market rent (use [Fannie Mae Form 1025/Freddie Mac Form 72](#), *Small*
6 *Residential Income Property Appraisal Report*) and the prospective leases
7 if available.

8 **History of Rental Income**

9 Where the Borrower has a history of Rental Income from the subject since
10 the previous tax filing, the Mortgagee must verify and document the
11 existing Rental Income by obtaining the existing lease, rental history over
12 the previous 24 months that is free of unexplained gaps greater than three
13 months (such gaps could be explained by student, seasonal or military
14 renters, or property rehabilitation), and the Borrower’s most recent tax
15 returns, including Schedule E, from the previous two years.

16 For Properties with less than two years of Rental Income history, the
17 Mortgagee must document the date of acquisition by providing the deed,
18 Closing Disclosure or other legal document.

19 **(iii) Calculation of Effective Income**

20 The Mortgagee must add the net subject property Rental Income to the
21 Borrower’s gross income to calculate Effective Income.

22 **Limited or No History of Rental Income**

23 To calculate the Effective Income from the subject Property where the
24 Borrower does not have a history of Rental Income from the subject
25 Property since the previous tax filing, the Mortgagee must use the lesser
26 of:

- 27 • the monthly operating income reported on Fannie Mae Form
28 216/[Freddie Mac Form 998](#), *Operating Income Statement*; or
- 29 • 75 percent of the lesser of:
 - 30 ○ fair market rent reported by the Appraiser; or
 - 31 ○ the rent reflected in the lease or other rental agreement.

32 **History of Rental Income**

33 The Mortgagee must calculate the Rental Income by averaging the amount
34 shown on the Schedule E.

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1 Depreciation, mortgage interest, taxes, insurance and any HOA dues
2 shown on Schedule E may be added back to the net income or loss.

3 If the Property has been owned for less than two years, the Mortgagee
4 must annualize the Rental Income for the length of time the Property has
5 been owned.

6 **(c) Rental Income from Other Real Estate Holdings**

7 **(i) Standard**

8 Rental Income from other real estate holdings may be considered Effective
9 Income if the documentation requirements listed below are met. If Rental
10 Income is being derived from the Property being vacated by the Borrower,
11 the Borrower must be relocating to an area more than 100 miles from the
12 Borrower's current Principal Residence. The Mortgagee must obtain a
13 lease agreement of at least one year's duration after the HECM is closed
14 and evidence of the payment of the security deposit or first month's rent.

15 **(ii) Required Documentation**

16 **Limited or No History of Rental Income**

17 Where the Borrower does not have a history of Rental Income for the
18 Property since the previous tax filing, including Property being vacated by
19 the Borrower, the Mortgagee must obtain an appraisal evidencing market
20 rent and that the Borrower has at least 25 percent equity in the Property.
21 The appraisal is not required to be completed by an FHA Roster
22 Appraiser.

23 **Two- to Four-Units**

24 The Mortgagee must verify and document the proposed Rental Income
25 by obtaining an appraisal showing fair market rent (use [Fannie Mae](#)
26 [Form 1025/Freddie Mac Form 72](#), *Small Residential Income Property*
27 *Appraisal Report*) and the prospective leases if available.

28 **One Unit**

29 The Mortgagee must verify and document the proposed Rental Income
30 by obtaining a [Fannie Mae Form 1004/Freddie Mac Form 70](#), *Uniform*
31 *Residential Appraisal Report (URAR)*, [Fannie Mae Form 1007/Freddie](#)
32 [Mac Form 1000](#), *Single-Family Comparable Rent Schedule*, and
33 Fannie Mae Form 216/[Freddie Mac Form 998](#), showing fair market
34 rent and, if available, the prospective lease.

1 **History of Rental Income**

2 The Mortgagee must obtain the Borrower’s last two years’ tax returns with
3 Schedule E.

4 **(iii) Calculation of Effective Net Rental Income**

5 **Limited or No History of Rental Income**

6 To calculate the effective net Rental Income from other real estate
7 holdings where the Borrower does not have a history of Rental Income
8 since the previous tax filing, the Mortgagee must deduct the Principal,
9 Interest, Taxes, and Insurance (PITI) from the lesser of:

- 10 • the monthly operating income reported on Fannie Mae Form
11 216/[Freddie Mac Form 998](#); or
- 12 • 75 percent of the lesser of:
 - 13 ○ fair market rent reported by the Appraiser; or
 - 14 ○ the rent reflected in the lease or other rental agreement.

15 **History of Net Rental Income**

16 The Mortgagee must calculate the net Rental Income by averaging the
17 amount shown on the Schedule E, provided the Borrower continues to
18 own all Properties included on the Schedule E.

19 Depreciation shown on Schedule E may be added back to the net income
20 or loss.

21 If the Property has been owned for less than two years, the Mortgagee
22 must annualize the Rental Income for the length of time the Property has
23 been owned.

24 For Properties with less than two years of Rental Income history, the
25 Mortgagee must document the date of acquisition by providing the deed,
26 Closing Disclosure or other legal document.

27 Positive net Rental Income must be added to the Borrower’s Effective
28 Income. Negative net Rental Income must be included as a debt/liability.

29 **(d) Borders of the Subject Property**

30 **(i) Definition**

31 Boarder refers to an individual renting space inside the Borrower’s
32 Dwelling Unit.

1 **(ii) Standard**

2 Rental Income from Boarders is only acceptable if the Borrower has a
3 two-year history of receiving income from Boarders that is shown on the
4 tax return and the Borrower is currently receiving Boarder income.

5 **(iii) Required Documentation**

6 The Mortgagee must obtain two years of the Borrower’s tax returns
7 evidencing income from Boarders and the current lease.

8 **(iv) Calculation of Effective Income**

9 The Mortgagee must calculate the Effective Income by using the lesser of
10 the two-year average or the current lease.

11 **(8) Investment Income**

12 **(a) Definition**

13 Investment Income refers to interest and dividend income received from assets
14 such as certificates of deposits, mutual funds, stocks, bonds, money markets,
15 and savings and checking accounts.

16 **(b) Required Documentation**

17 The Mortgagee must verify and document the Borrower’s Investment Income
18 by obtaining tax returns for the previous two years and the most recent
19 account statement.

20 **(c) Calculation of Effective Income**

21 The Mortgagee must calculate Investment Income by using the lesser of:
22 • the average Investment Income earned over the previous two years; or
23 • the average Investment Income earned over the previous one year.

24 The Mortgagee must subtract any of the assets used for the Borrower’s
25 required funds to close to purchase the subject Property or where the
26 Borrower is otherwise required to bring cash to closing from the Borrower’s
27 liquid assets prior to calculating any interest or dividend income.

1 **(9) Capital Gains and Losses**

2 **(a) Definitions**

3 Capital Gains refer to a profit that results from a disposition of a capital asset,
4 such as a stock, bond, or real estate, where the amount realized on the
5 disposition exceeds the purchase price.

6 Capital Losses refer to a loss that results from a disposition of a capital asset,
7 such as a stock, bond or real estate, where the amount realized on the
8 disposition is less than the purchase price.

9 **(b) Standard**

10 Capital gains or losses must be considered when determining Effective
11 Income, when the individual has a constant turnover of assets resulting in
12 gains or losses.

13 **(c) Required Documentation**

14 Three years' tax returns are required to evaluate an earnings trend. If the
15 trend:

- 16 • results in a gain, it may be added as Effective Income; or
- 17 • consistently shows a loss, it must be deducted from the total income.

18 **(10) Expected Income**

19 **(a) Definition**

20 Expected Income refers to income from cost-of-living adjustments,
21 performance raises, a new job, or retirement that has not been, but will be
22 received within 60 Days of mortgage closing.

23 **(b) Standard**

24 The Mortgagee may consider Expected Income as Effective Income except
25 when Expected Income is to be derived from a family-owned business.

26 **(c) Required Documentation**

27 The Mortgagee must verify and document the existence and amount of
28 Expected Income with the employer in writing and that it is guaranteed to
29 begin within 60 Days of mortgage closing. For expected Retirement Income,
30 the Mortgagee must verify the amount and that it is guaranteed to begin within
31 60 Days of the mortgage closing.

1 **(d) Calculation of Effective Income**

2 Income is calculated in accordance with the standards for the type of income
3 being received. The Mortgagee must also verify that the Borrower will have
4 sufficient income or Cash Reserves to meet their obligations between HECM
5 closing and the beginning of the receipt of the income.

6 **(11) Trust Income**

7 **(a) Definition**

8 Trust Income refers to income that is regularly distributed to a Borrower from
9 a trust.

10 **(b) Required Documentation**

11 The Mortgagee must verify and document the existence of the Trust
12 Agreement or other trustee statement. The Mortgagee must also verify and
13 document the frequency, duration, and amount of the distribution by obtaining
14 a bank statement or transaction history from the bank.

15 The Mortgagee must verify that regular payments will continue for at least the
16 first three years of the mortgage term.

17 **(c) Calculation of Effective Income**

18 The Mortgagee must use the income based on the terms and conditions in the
19 Trust Agreement or other trustee statement to calculate Effective Income.

20 **(12) Annuities or Similar**

21 **(a) Definition**

22 Annuity Income refers to a fixed sum of money periodically paid to the
23 Borrower from a source other than employment.

24 **(b) Required Documentation**

25 The Mortgagee must verify and document the legal agreement establishing the
26 annuity and guaranteeing the continuation of the annuity for the first three
27 years of the HECM. The Mortgagee must also obtain a bank statement or a
28 transaction history from a bank evidencing receipt of the annuity.

29 **(c) Calculation of Effective Income**

30 The Mortgagee must use the current rate of the annuity to calculate Effective
31 Income.

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1 The Mortgagee must subtract any of the assets used for the Borrower's
2 required funds to close to purchase the subject Property from the Borrower's
3 liquid assets prior to calculating any Annuity Income.

4 **(13) Notes Receivable Income**

5 **(a) Definition**

6 Notes Receivable Income refers to income received by the Borrower as payee
7 or holder in due course of a promissory Note or similar credit instrument.

8 **(b) Required Documentation**

9 The Mortgagee must verify and document the existence of the Note. The
10 Mortgagee must also verify and document that payments have been
11 consistently received for the previous 12 months by obtaining tax returns,
12 deposit slips or canceled checks and that such payments are guaranteed to
13 continue for the first three years of the HECM.

14 **(c) Calculation of Effective Income**

15 For Borrowers who have been and will be receiving a consistent amount of
16 Notes Receivable Income, the Mortgagee must use the current rate of income
17 to calculate Effective Income. For Borrowers whose Notes Receivable Income
18 fluctuates, the Mortgagee must use the average of the Notes Receivable
19 Income received over the previous year to calculate Effective Income.

20 **(14) Non-Taxable Income**

21 **(a) Definition**

22 Non-Taxable Income refers to types of income not subject to federal taxes,
23 which includes, but is not limited to:

- 24 • some portion of Social Security Income;
- 25 • some federal government employee Retirement Income;
- 26 • Railroad Retirement benefits;
- 27 • some state government Retirement Income;
- 28 • certain types of disability and Public Assistance payments;
- 29 • Child Support;
- 30 • military allowances; and
- 31 • other income that is documented as being exempt from federal income
32 taxes.

1 **(b) Required Documentation**

2 The Mortgagee must document and support the amount of income from non-
3 taxable sources.

4 **(c) Calculation of Effective Income**

5 Mortgagees may add the amount of Non-Taxable Income to Effective Income.
6 However, because the Residual Income analysis will take into account federal
7 taxes, it will be reflected in the expense analysis for Residual Income. Non-
8 Taxable Income, therefore, may not be “Grossed Up.”

9 The Mortgagee may not make any additional adjustments or allowances based
10 on the number of the Borrower’s dependents.

11 **(15) Government Assistance Non-Cash Benefits Income**

12 **(a) Definition**

13 Government Assistance Non-Cash Benefits Income refers to non-cash benefits
14 being received by the Borrower through federal, state or local government
15 programs, e.g., Supplemental Nutrition Assistance Program (SNAP), energy
16 assistance, etc.

17 **(b) Required Documentation**

18 In determining whether such benefits may be counted as income, the
19 Mortgagee must:

- 20 • verify that the benefits are being received at the time of loan
21 application, or that an award letter has been issued, and benefits will
22 begin to be received within 60 Days. Mortgagees may not count
23 benefits for which the Borrower is potentially eligible and intends to
24 apply;
- 25 • verify that the benefits are not subject to any stated termination date
26 other than one related to the death of the Borrower or the sale of the
27 Property; and
- 28 • verify that approval of the HECM will not jeopardize continued
29 eligibility for the benefits, e.g., HECM proceeds would trigger
30 disqualification based on program income or asset requirements.

31 **(c) Calculation of Effective Income**

32 Mortgagees may add the amount of the monthly non-cash benefits to Effective
33 Income.

1 **(16) Foster Care Payment**

2 **(a) Definition**

3 Foster Care Payment refers to payment received from a state- or county-
4 sponsored organization for providing temporary care for one or more
5 individuals.

6 **(b) Standard**

7 Foster care payment may be considered acceptable and stable income if the
8 Borrower has a two-year history of providing foster care services and
9 receiving foster care payment and that the foster care payment is reasonably
10 likely to continue.

11 **(c) Required Documentation**

12 The Mortgagee must obtain a written verification of foster care payment from
13 the organization providing it, verify and document that the Borrower has a
14 two-year history of providing foster care services and receiving foster care
15 payment, and that the foster care payment is reasonably likely to continue.

16 **(d) Calculation of Effective Income**

17 The Mortgagee must calculate foster care payment by using the lesser of:

- 18 • average foster care payment received over the previous two years; or
- 19 • average foster care payment received over the previous year.

20 **(17) Imputed Income from Asset Dissipation**

21 **(a) Definitions**

22 Imputed Income from Asset Dissipation refers to the amount of monthly
23 income that could be generated if liquid assets were dissipated and converted
24 to cash.

25 Liquid Assets refers to assets that can be converted to cash within one year
26 without payment of an IRS penalty.

27 **(b) Required Documentation**

28 Mortgagees must document the source of the asset in accordance with [Asset](#)
29 [Requirements](#). Mortgagees may not count the same asset twice, i.e., as a
30 source of interest or other income and as imputed income from the dissipation
31 of the asset. The Mortgagee must also subtract any funds from the Borrower's

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1 liquid assets that the Borrower is required to bring to closing prior to
2 calculating any imputed income from asset dissipation.

3 If the asset is jointly held with any other party not obligated on the Mortgage,
4 the asset may be counted provided that the Borrower provides documentation
5 that the Borrower has unrestricted access to that asset.

6 **(c) Calculation of Effective Income**

7 Mortgagees must calculate the combined value of assets and calculate income
8 from these sources by:

- 9 • calculating the value of the assets by reducing any taxable assets by
10 the lesser of the Borrower’s actual tax rate based on federal tax returns
11 from the prior tax year or 15 percent. No adjustment is required if the
12 Borrower does not have a federal tax obligation; and
- 13 • dividing the total value by the remaining life expectancy of the
14 youngest Borrower (in months) from the loan period to the [Assumed](#)
15 [Loan Periods for Computations of Total Annual Loan Cost Rates](#). If
16 the youngest Borrower’s next birthday is less than 183 Days after the
17 estimated date of closing, round up the age to the nearest whole year.

18 **f. Residual Income Analysis**

19 **i. Definition**

20 Residual Income refers to the total monthly Effective Income from all sources described
21 in [Effective Income Analysis](#) for the Borrowers obligated on the Mortgage, minus the
22 total monthly expenses from all sources described in [Monthly Expense Analysis](#) for the
23 Borrowers obligated on the Mortgage.

24 **ii. Standard**

25 The Borrower must have Residual Income at least equal to the applicable amount for the
26 Borrower’s family size and geographic region on the [Table of Residual Incomes by](#)
27 [Region](#).

28 **(A) Calculating Family Size**

29 Count all members of the household (without regard to the nature of the relationship)
30 when determining “family size,” including an Eligible NBS and Other Non-
31 Borrowing Household Members.

32 **(1) Reducing Family Size**

33 An Eligible NBS or Other Non-Borrowing Household Member may be eliminated
34 from family size provided that:

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- they [authorize the Mortgagee](#) to collect information on their Effective Income and Monthly Expenses;
- they provide consent to the Mortgagee to verify their SSN and obtain Tax Verification Forms;
- the Mortgagee meets the requirements associated with the Privacy Act; and
- the excluded household members' Residual Income meets the standard for a one-person family size.

(2) Limitations on the Use of the One-Person Family Size

The one-person family size may only be used for a Borrower where:

- the *RLARM* (Fannie Mae Form 1009) indicates that the Borrower is single or unmarried;
- for Borrowers required to file tax returns:
 - the results of an IRS Form 4506-T, *Request for Transcript of Tax Return*, or verification or copies of tax returns confirm that the Borrower files as a single person; or
 - for Borrowers not required to file tax returns, the property title, credit report, or other information supports the marital status claimed by the Borrower; and
- the Borrower identifies as unmarried in the certification regarding marital status.

This documentation is not required where the Eligible NBS or Other Non-Borrowing Household Member has been excluded from family size based on the criteria defined in this section.

(3) Residual Income of Eligible Non-Borrowing Spouse Used as Compensating Factor

If income from an Eligible NBS is cited as a [Compensating Factor](#), the Mortgagee may not reduce family size when determining if the Borrower meets the Residual Income standard.

(B) Required Documentation

To reduce family size, the Residual Income for the Eligible NBS or Other Non-Borrowing Household Member must meet the same documentation and verification standards as required for the Borrower's [Effective Income Analysis](#), [Monthly Expense Analysis](#), and Residual Income analysis.

Imputed income from asset dissipation may not be included.

1 **iii. Table of Residual Incomes by Region**

2 To determine the Residual Income standard, Mortgagees must select the applicable
3 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	\$1,031
4 or more	\$1,066	\$1,041	\$1,041	\$1,160

4 The regions on the Table of Residual Incomes by Region include the following states:

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

5 **iv. Acceptable Compensating Factors**

6 **(A) Definitions**

7 Compensating Factors refer to factors that may be used to justify approval of HECMs
8 where the Borrower does not meet the Residual Income standard.

9 Income Compensating Factors refer to income from the following sources: (1)
10 Overtime, Bonus, and/or Tip Income, or Seasonal and Part-Time Employment; (2)
11 Eligible NBS income; (3) expected SSI or pension income; and (4) imputed income
12 from the HECM.

13 Non-Income Compensating Factors refer to other Borrower financial characteristics
14 and include the following: (1) property charge payment history, (2) access to other
15 credit, (3) assets equal to Projected Life Expectancy Property Charges, and (4)
16 HECM sufficient to pay off debts.

17 **(B) Standard**

18 When citing a Compensating Factor, the Mortgagee must document the applicable
19 requirements below.

1 **(1) Income Compensating Factors**

2 Mortgagees may combine one or more income Compensating Factors, along with
3 the reduction in expenses resulting from any Fully Funded LESA, to meet the
4 Residual Income standard.

5 Mortgagees may not use income Compensating Factors to reach 80 percent or
6 more of the Residual Income standard in order to cite non-income Compensating
7 Factors.

8 **(a) Overtime, Seasonal, Part-Time, Bonus, or Tip Income**

9 To cite Overtime, Bonus, or Tip Income, or Part-Time or Seasonal
10 Employment that is not reflected in Effective Income as a Compensating
11 Factor, the Mortgagee must:

- 12 • verify and document that the Borrower has received this income for at
13 least six months, and it will likely continue; and
- 14 • verify the income, if included in Residual Income and combined with
15 the reduction in expenses from any Fully Funded LESA and income
16 from any other income Compensating Factors, results in the Borrower
17 meeting the Residual Income standard.

18 Overtime, Bonus, or Tip Income, or Part-Time or Seasonal Employment from
19 an Eligible NBS may not be used for this Compensating Factor.

20 **(b) Eligible Non-Borrowing Spouse Income**

21 To cite income from an Eligible NBS that is not reflected in Effective Income
22 as a Compensating Factor, the Mortgagee must:

- 23 • verify and document that the Eligible NBS has received this income
24 for at least six months, and it will likely continue; and
- 25 • verify the income, if included in Residual Income and combined with
26 the reduction in expenses from any Fully Funded LESA and income
27 from any other income Compensating Factors, results in the Borrower
28 meeting the Residual Income standard.

29 **(c) Expected SSI or Pension Income**

30 To cite income from Expected SSI or Pension that is not reflected in Effective
31 Income as a Compensating Factor, the Mortgagee must:

- 32 • verify and document that the Borrower has received an award letter
33 stating that the Borrower will begin receiving Pension or SSI within
34 the next 12 months; and
- 35 • verify income, if included in Residual Income and combined with the
36 reduction in expenses from any Fully Funded LESA and income from

1 any other income Compensating Factors, results in the Borrower
2 meeting the Residual Income standard.

3 **(d) Imputed Income from HECM**

4 To cite Imputed Income from a HECM that is not reflected in Effective
5 Income as a Compensating Factor, the Mortgagee must:

- 6 • verify and document the additional income that would result from
7 dissipating available HECM proceeds remaining after closing, based
8 on the original Principal Limit less any required Repair Set-Aside, Life
9 Expectancy Set-Aside and Servicing Fee Set-Aside, and
10 Disbursements for Mandatory Obligations; and
- 11 • verify the income, if included in Residual Income and combined with
12 the reduction in expenses from any Fully Funded LESA and income
13 from any other income Compensating Factors, results in the Borrower
14 meeting the Residual Income standard.

15 **(2) Non-Income Compensating Factors**

16 To cite non-income Compensating Factors, the Mortgagee must determine that
17 the Borrower's Residual Income is 80 percent or more of the applicable [Residual](#)
18 [Income standard](#) and document that the specific criteria described for the
19 individual Compensating Factor have been met.

20 **(a) Property Charge Payment History**

21 To cite property charge payment history as a Compensating Factor the
22 Mortgagee must determine that:

- 23 • the Borrower has paid their own Property Charges directly for at least
24 the last 24 months (i.e., they were not paid by a Mortgagee from an
25 escrow account or by another party) and meets the standard in
26 [Satisfactory Property Charge Payment History](#);
- 27 • the Borrower has made all property charge payments without incurring
28 penalties during the last 24 months; and
- 29 • the Borrower's current income is not less than the income during the
30 previous 24 months.

31 **(b) Access to Other Credit**

32 To cite Access to Other Credit as a Compensating Factor the Mortgagee must
33 determine that:

- 34 • the Borrower's housing payment for the Property to secure the HECM
35 is the only open account with an outstanding balance that is not paid
36 off monthly;

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- the credit report shows established credit lines in the Borrower’s name open for at least six months; and
- the Borrower has paid off all these accounts and credit lines in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months do not qualify under these criteria. Credit lines not in the Borrower’s name but for which they are an authorized user do not qualify under these criteria.

(c) Assets Equal to Life Expectancy Property Charges

To cite Assets Equal to Life Expectancy Property Charges as a Compensating Factor, the Mortgagee must determine that the Borrower has assets (excluding HECM proceeds) equivalent to the [Projected Life Expectancy Property Charges](#) that were not dissipated or considered in the Residual Income calculation.

(d) HECM Sufficient to Pay Off Debts

To cite HECM Sufficient to Pay Off Debts as a Compensating Factor the Mortgagee must determine that HECM proceeds remaining after closing (based on the original Principal Limit less any required Repair Set-Aside, Life Expectancy Set-Aside and Servicing Fee Set-Aside and Disbursements for Mandatory Obligations) that were not dissipated and counted as income are sufficient to pay off revolving and installment debt, including revolving and installment accounts in collection, that would reduce monthly payments to the extent that Residual Income would meet the Residual Income standard.

g. Asset Requirements

i. General Asset Requirements

When calculating sources of funds available to meet closing requirements, the Mortgagee may only consider assets derived from acceptable sources in accordance with the requirements outlined below.

The Mortgagee must document all funds that are used to calculate borrower funds that are required to close a HECM, including those to pay:

- Mandatory Obligations;
- costs outside of closing;
- other required cash from the Borrower to close the transaction; or
- additional funds the Borrower brings to closing to reduce Mandatory Obligations.

1 **(A) Determining the Amount Needed for Closing**

2 The amount of cash needed by the Borrower to close an FHA-insured HECM is the
3 difference between Mandatory Obligations and the [Principal Limit](#).

4 **(B) Mortgagee Responsibility for Estimating Closing Cost Requirements**

5 The Mortgagee must determine the total amount of cash that the Borrower must
6 provide at HECM closing.

7 **(1) Initial Mortgage Insurance Premium Amounts**

8 Any IMIP amounts paid in cash are added to the total cash closing requirements.

9 **(2) Real Estate Agent Fees**

10 If a Borrower is represented by a real estate agent and must pay any fee directly to
11 the agent, that expense must be included in the total of the Borrower's closing
12 requirements.

13 **(3) Premium Pricing on HECMs**

14 **(a) Definition**

15 Premium Pricing refers to the aggregate credits from a Mortgagee or TPO at
16 the interest rate chosen.

17 **(b) Standard**

18 Premium Pricing may be used to pay the Borrower's actual closing costs and
19 prepaid items.

20 The funds derived from a premium priced HECM must be disclosed in
21 accordance with RESPA and may not be used for:

- 22 • payment of debts,
- 23 • collection accounts,
- 24 • delinquent property charge payments,
- 25 • missed Mortgage Payments, or
- 26 • Judgments.

27 **(c) Required Documentation**

28 The Mortgagee must document the total amount of the Premium Pricing credit
29 on Exhibit II – Schedule of Closing Costs and include a listing of fees that are
30 covered by the credit.

1 **ii. Acceptable Sources of Funds**

2 The Mortgagee must verify liquid assets from acceptable sources used to calculate
3 availability of funds required to close. Mortgagees may not count the same asset twice,
4 i.e., as a source of imputed income to support Residual Income and as a source of cash to
5 close.

6 **(A) Checking and Savings Accounts**

7 **(1) Definition**

8 Checking and Savings Accounts refer to funds from Borrower-held accounts in a
9 financial institution that allows for withdrawals and deposits.

10 **(2) Standard**

11 The Mortgagee must verify and document the existence of and amounts in the
12 Borrower's checking and savings accounts. The Mortgagee must verify and
13 document the source of deposits for recently opened accounts and recent
14 individual deposits of more than 1 percent of the MCA.

15 **(3) Required Documentation**

16 If the Borrower does not hold the deposit account solely, all non-Borrower parties
17 on the account must provide a written statement that the Borrower has full access
18 and use of the funds.

19 **(a) Traditional Documentation**

20 The Mortgagee must obtain:

- 21 • a written Verification of Deposit (VOD) and the Borrower's most
- 22 recent statement for each account; or
- 23 • direct verification by a TPV vendor of the Borrower's account
- 24 covering activity for a minimum of the most recent available month
- 25 for a minimum of one month, subject to the following requirements:
- 26 ○ the Borrower has authorized the Mortgagee to use a TPV vendor to
- 27 verify assets; and
- 28 ○ the date of the data contained in the completed verification is
- 29 current within 30 days of the date of the verification.

30 **(b) Alternative Documentation**

31 If a VOD is not obtained, a statement showing the previous month's ending
32 balance for the most recent month is required. If the previous month's balance
33 is not shown, the Mortgagee must obtain statement(s) for the most recent two
34 months.

1 **(B) Cash on Hand**

2 **(1) Definition**

3 Cash on Hand refers to cash held by the Borrower outside of a financial
4 institution.

5 **(2) Standard**

6 The Mortgagee must verify that the Borrower’s Cash on Hand is deposited in a
7 financial institution or held by the escrow/title company.

8 **(3) Required Documentation**

9 The Mortgagee must verify and document the Borrower’s Cash on Hand by
10 obtaining an explanation from the Borrower describing how the funds were
11 accumulated and the amount of time it took to accumulate the funds.

12 The Mortgagee must also determine the reasonableness of the accumulation based
13 on the time period during which the funds were saved and the Borrower’s:

- 14 • income stream;
- 15 • spending habits;
- 16 • documented expenses; and
- 17 • history of using financial institutions.

18 **(C) Retirement Accounts**

19 **(1) Definition**

20 Retirement Accounts refer to assets accumulated by the Borrower for the purpose
21 of retirement.

22 **(2) Standard**

23 The Mortgagee may include the value of assets from the Borrower’s retirement
24 accounts, which includes IRAs, thrift savings plans, 401(k) plans, and Keogh
25 accounts. If the Borrower has an existing loan, the Mortgagee must deduct the
26 outstanding loan balance from the value of the retirement accounts.

27 **(3) Required Documentation**

28 The Mortgagee must obtain the most recent monthly or quarterly statement to
29 verify and document the existence and amounts in the Borrower’s retirement
30 accounts, the Borrower’s eligibility for withdrawals, and the terms and conditions
31 for withdrawal from any retirement account.

1 If any portion of the asset is required for funds to close, evidence of liquidation is
2 required.

3 **(D) Stocks and Bonds**

4 **(1) Definition**

5 Stocks and Bonds are investment assets accumulated by the Borrower.

6 **(2) Standard**

7 The Mortgagee must determine the value of the stocks and bonds from the most
8 recent monthly or quarterly statement.

9 If the stocks and bonds are not held in a brokerage account, the Mortgagee must
10 determine the current value of the stocks and bonds through TPV. Government-
11 issued savings bonds are valued at the original purchase price unless the
12 Mortgagee verifies and documents that the bonds are eligible for redemption
13 when cash to close is calculated.

14 **(3) Required Documentation**

15 The Mortgagee must verify and document the existence of the Borrower's stocks
16 and bonds by obtaining brokerage statement(s) for each account for the most
17 recent two months. Evidence of liquidation is not required.

18 For stocks and bonds not held in a brokerage account the Mortgagee must obtain a
19 copy of each stock or bond certificate.

20 **(E) Private Savings Clubs**

21 **(1) Definition**

22 Private Savings Club refers to a non-traditional method of saving by making
23 deposits into a member-managed resource pool.

24 **(2) Standard**

25 The Mortgagee may consider Private Savings Club funds that are distributed to
26 and received by the Borrower as an acceptable source of funds.

27 The Mortgagee must verify and document the establishment and duration of the
28 club, and the Borrower's receipt of funds from the club. The Mortgagee must also
29 determine that the received funds were reasonably accumulated, and not
30 borrowed.

1 **(3) Required Documentation**

2 The Mortgagee must obtain the club’s account ledgers and receipts, and a
3 verification from the club treasurer that the club is still active.

4 **(F) Gifts**

5 **(1) Definition**

6 Gifts refer to the contributions of cash with no expectation of repayment.

7 **(2) Standards for Gifts**

8 **(a) Acceptable Sources of Gifts Funds**

9 Gifts may be provided by:

- 10 • the Borrower’s Family Member;
- 11 • the Borrower’s employer or labor union;
- 12 • a close friend with a clearly defined and documented interest in the
13 Borrower;
- 14 • a charitable organization; or
- 15 • a governmental agency or that has a program providing
16 homeownership assistance to:
 - 17 ○ low or moderate income families; or
 - 18 ○ first-time homebuyers.

19 **(b) Donor’s Source of Funds**

20 Cash on Hand is not an acceptable source of donor gift funds.

21 **(3) Required Documentation**

22 The Mortgagee must obtain a gift letter signed and dated by the donor and
23 Borrower that includes the following:

- 24 • the donor’s name, address, and telephone number;
- 25 • the donor’s relationship to the Borrower;
- 26 • the dollar amount of the Gift; and
- 27 • a statement that no repayment is required.

28 **Documenting the Transfer of Gifts**

29 The Mortgagee must verify and document the transfer of gift funds from the
30 donor to the Borrower in accordance with the requirements below.

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- 1 a. If the gift funds have been verified in the Borrower’s account, obtain the
2 donor’s bank statement showing the withdrawal and evidence of the
3 deposit into the Borrower’s account.
- 4 b. If the gift funds are not verified in the Borrower’s account, obtain the
5 certified check or money order or cashier’s check or wire transfer or other
6 official check evidencing payment to the Borrower or settlement agent,
7 and the donor’s bank statement evidencing sufficient funds for the amount
8 of the Gift.

9 If the gift funds are being borrowed by the donor and documentation from the
10 bank or other savings account is not available, the Mortgagee must have the donor
11 provide written evidence that the funds were borrowed from an acceptable source,
12 not from a party to the transaction.

13 The Mortgagee and its Affiliates are prohibited from providing the loan of gift
14 funds to the donor unless the terms of the loan are equivalent to those available to
15 the general public.

16 Regardless of when gift funds are made available to a Borrower or settlement
17 agent, the Mortgagee must be able to make a reasonable determination that the
18 gift funds were not provided by an unacceptable source.

19 **(G) Sale of Real Property**

20 **(1) Definition**

21 The Sale of Real Property refers to the sale of Property currently owned by the
22 Borrower.

23 **(2) Standard**

24 Net proceeds from the Sale of Real Property may be used as a source of
25 acceptable funds.

26 **(3) Required Documentation**

27 The Mortgagee must verify and document the actual sale and the net proceeds by
28 obtaining a fully executed Closing Disclosure or similar legal document.

29 The Mortgagee must also verify and document that the transaction was arms-
30 length, and that the Borrower is entitled to the Net Sale Proceeds.

1 **(H) Sale of Personal Property**

2 **(1) Definition**

3 Personal Property refers to tangible property, other than Real Property, such as
4 cars, recreational vehicles, stamps, coins, or other collectibles.

5 **(2) Standard**

6 The Mortgagee must use the lesser of the estimated value or actual sales price
7 when determining the sufficiency of assets to close.

8 **(3) Required Documentation**

9 Borrowers may sell Personal Property to obtain cash for closing.

10 The Mortgagee must obtain a satisfactory estimate of the value of the item, a copy
11 of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate
12 may take the form of a published value estimate issued by organizations such as
13 automobile dealers, philatelic or numismatic associations, or a separate written
14 appraisal by a qualified Appraiser with no financial interest in the mortgage
15 transaction.

16 **(I) Disaster Relief Grants**

17 **(1) Definition**

18 Disaster Relief Grants refer to grants from a Governmental Entity that provide
19 immediate housing assistance to individuals displaced due to a natural disaster.

20 **(2) Required Documentation**

21 The Mortgagee must verify and document the Borrower's receipt of the grant and
22 terms of use.

23 **(J) Employer Assistance**

24 **(1) Definition**

25 Employer Assistance refers to benefits provided by an employer to relocate the
26 Borrower or assist in the Borrower's housing purchase, including closing costs,
27 MIP, or any portion of the monetary investment. Employer Assistance does not
28 include benefits provided by an employer through secondary financing.

29 A salary advance cannot be considered as assets to close.

1 **(2) Standard**

2 **(a) Relocation Guaranteed Purchase**

3 The Mortgagee may allow the net proceeds (relocation guaranteed purchase
4 price minus the outstanding liens and expenses) to be used as cash to close.

5 **(b) Employer Assistance Plans**

6 The amount received under Employer Assistance Plans may be used as cash to
7 close.

8 **(3) Required Documentation**

9 **(a) Relocation Guaranteed Purchase**

10 If the Borrower is being transferred by their company under a guaranteed sales
11 plan, the Mortgagee must obtain an executed buyout agreement signed by all
12 parties and a receipt of funds indicating that the employer or relocation service
13 takes responsibility for the outstanding mortgage debt.

14 The Mortgagee must verify and document the agreement guaranteeing
15 employer purchase of the Borrower’s previous residence and the net proceeds
16 from sale.

17 **(b) Employer Assistance Plans**

18 The Mortgagee must verify and document the Borrower’s receipt of
19 assistance. If the employer provides this benefit after settlement, the
20 Mortgagee must verify and document that the Borrower has sufficient cash for
21 closing.

22 **h. Required Documentation**

23 The Mortgagee must document its assessment of required financial information on a
24 [Financial Assessment Worksheet](#) that has been signed by the underwriter. The Mortgagee
25 must submit all documentation used to perform the financial assessment in the HECM case
26 binder.

27 **i. Final HECM Decision**

28 The underwriter is ultimately responsible for making a HECM decision on behalf of their DE
29 Mortgagee in compliance with HUD requirements.

30 In making the final HECM decision, the underwriter must evaluate the results of the financial
31 assessment and determine whether, and under what conditions, the Borrower meets FHA
32 eligibility criteria.

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1 To determine whether the HECM represents a sustainable solution for the Borrower’s
2 financial circumstances, the underwriter must evaluate whether the Borrower meets Residual
3 Income, credit history, and property charge history requirements, including the use of
4 Extenuating Circumstances and Compensating Factors.

5 The Mortgagee must not use FHA’s Technology Open To Approved Lenders (TOTAL)
6 Mortgage Scorecard to perform the financial assessment for HECMs.

7 **i. Duty of Care/Due Diligence**

8 The underwriter must exercise the same level of care that would be used in approving a
9 HECM entirely dependent on the Property as security. Compliance with FHA
10 requirements is deemed to be the minimum standard of due diligence required in
11 originating and underwriting an FHA-insured HECM.

12 **ii. Specific Underwriter Responsibilities**

13 The underwriter must review each HECM as a separate and unique transaction,
14 recognizing that there may be multiple factors that demonstrate a Borrower’s ability and
15 willingness to meet their financial obligations and comply with the terms of the HECM.
16 The underwriter must evaluate the totality of the Borrower’s circumstances and the
17 impact of layering risks on the probability that a Borrower will be able to meet their
18 financial obligations and comply with the terms of the HECM.

19 As the responsible party, the underwriter must:

- 20 • review appraisal reports, compliance inspections, and credit analyses to ensure
21 reasonable conclusions, sound reports, and compliance with HUD requirements
22 regardless of who prepared the documentation;
- 23 • determine the acceptability of the appraisal, the inspections, the Borrower’s
24 ability to meet their financial obligations and comply with the terms of the
25 HECM, and the overall acceptability of the HECM for FHA insurance;
- 26 • identify any inconsistencies in information obtained by the Mortgagee in the
27 course of reviewing the Borrower’s application regardless of the materiality of
28 such information to the origination and processing of a HECM; and
- 29 • resolve all inconsistencies identified before approving the Borrower’s application,
30 and document the inconsistencies and their resolutions of the inconsistencies in
31 the file.

32 The underwriter must identify and report any misrepresentations, violations of HUD
33 requirements, and fraud to the appropriate party within their organization.

34 **iii. Credit and Property Charge Payment History**

35 The underwriter must determine the creditworthiness of the Borrower, which includes
36 analyzing the Borrower’s overall pattern of credit behavior and the credit report (see

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1 [Credit History Review Requirements](#) and [Property Charge Payment History Review](#)
2 [Requirements](#)).

3 The lack of traditional credit history or the Borrower's decision to not use credit may not
4 be used as the basis for rejecting the HECM application.

5 Where the Borrower's credit and/or property charge payment history does not meet the
6 criteria described in [Satisfactory Credit History](#) and [Satisfactory Property Charge](#)
7 [Payment History](#), the Mortgagee must either document [Extenuating Circumstances](#), or
8 require a Fully Funded LESA.

9 [Compensating Factors](#) cannot be used to compensate for any derogatory credit.

10 The underwriter must ensure that there are no other unpaid obligations incurred in
11 connection with the HECM transaction.

12 **iv. Monthly Expenses**

13 The underwriter must calculate the Borrower's monthly expenses and verify that they
14 have been supported with proper documentation (see [Monthly Expense Analysis](#)).

15 **v. Effective Income**

16 The underwriter must review the income of a Borrower and verify that it has been
17 supported with the proper documentation (see [Effective Income Analysis](#)).

18 **vi. Residual Income**

19 The underwriter must calculate the Borrower's Residual Income and verify that it is
20 supported with proper documentation (see [Residual Income Analysis](#)).

21 **Residual Income Shortfall**

22 The underwriter must reduce the Borrower's monthly expenses when a Fully Funded
23 LESA is required. Where this reduction in expenses results in the Borrower meeting the
24 Residual Income standard, no additional documentation, including Compensating
25 Factors, is required.

26 Where a Borrower's Residual Income is less than the applicable standard, the underwriter
27 must document that the Borrower's Residual Income satisfies one of the criteria below or
28 require a [Partially Funded LESA](#). The Borrower:

- 29 • meets the applicable Residual Income standard with the use of one or more
30 acceptable [Income Compensating Factors](#); or
- 31 • has Residual Income above 80 percent of the applicable Residual Income standard
32 and meets the standard for citing one or more [Non-Income Compensating Factors](#).

1 [Extenuating Circumstances](#) may not be used to compensate for a Residual Income
2 shortfall.

3 **vii. Life Expectancy Property Charges**

4 **(A) Definitions**

5 Projected Life Expectancy Property Charges refers to the amount of HECM proceeds
6 necessary to pay property taxes, Hazard Insurance and Flood Insurance, if applicable,
7 based on the life expectancy of the youngest Borrower.

8 Life Expectancy Set-Aside (LESA) refers to a Set-Aside account that is established
9 for the payment of property taxes, Hazard Insurance, and, if applicable, Flood
10 Insurance until expended or while the HECM is not in Due and Payable status. LESA
11 funds cannot be held in an escrow account.

12 Fully Funded Life Expectancy Set-Aside (LESA) refers to a portion of the
13 Borrower's Principal Limit that is designated for payment of property taxes, Hazard
14 Insurance and, if applicable, Flood Insurance for the estimated remainder of the
15 Borrower's life expectancy. With a Fully Funded LESA, the Mortgagee makes
16 payments directly to the billing agency.

17 Partially Funded Life Expectancy Set-Aside (LESA) refers to a portion of the
18 Borrower's Principal Limit that is designated for partial payment of property taxes,
19 Hazard Insurance and, if applicable, Flood Insurance for the estimated remainder of
20 the Borrower's life expectancy. With a Partially Funded LESA, the Mortgagee makes
21 payments to the Borrower who is responsible for the remaining amounts owed and
22 delivering the full payment to the billing agency.

23 **(B) Standard**

24 The underwriter must calculate the Projected Life Expectancy Property Charges for
25 all HECMs, regardless if a LESA is required or not. The underwriter must determine
26 if the Borrower is required to use HECM proceeds to pay for Property Charges from a
27 Fully Funded or Partially Funded LESA.

28 Where the Mortgagee will pay Property Charges from a Fully Funded LESA, there
29 will be an effective reduction in the Borrower's monthly expenses. Where the amount
30 of Property Charges to be paid through the Fully Funded LESA is such that the
31 Borrower will still fall significantly short of the Residual Income standard, the
32 approval of a HECM, even with a Fully Funded LESA, may not represent a
33 sustainable solution for the Borrower's financial circumstances.

1 **(1) Fully Funded LESA**

2 Where the Mortgagee determines the Borrower has not demonstrated the
3 willingness to meet their financial obligations as stated in [Satisfactory Credit](#)
4 [History](#) and [Satisfactory Property Charge Payment History](#) and no [Extenuating](#)
5 [Circumstances](#) can be documented, the Mortgagee must, at a minimum, require a
6 [Fully Funded LESA](#).

7 Through the Fully Funded LESA the Mortgagee will use HECM proceeds to pay
8 property taxes and insurance premiums on behalf of the Borrower. The Borrower
9 remains responsible for timely payment of all other Property Charges.

10 **(2) Partially Funded LESA**

11 Where the Mortgagee determines the Borrower has demonstrated the willingness
12 to meet their financial obligations as stated in [Satisfactory Credit History](#) and
13 [Satisfactory Property Charge Payment History](#) but does not meet the [Residual](#)
14 [Income Standard](#) and no [Compensating Factors](#) can be documented, the
15 Mortgagee must, at a minimum, require a Partially Funded LESA.

16 The HECM proceeds from the Partially Funded LESA must result in the
17 Borrower meeting the Residual Income standard.

18 A Partially Funded LESA is not required if the Borrower voluntarily requests a
19 Fully Funded LESA.

20 If the amount of the Partially Funded LESA is greater than 75 percent of the
21 Projected Life Expectancy Property Charges, a Fully Funded LESA must be
22 required.

23 Through the Partially Funded LESA the Borrower will receive semiannual
24 payments from HECM proceeds to pay property taxes and insurance premiums.
25 The Borrower remains responsible for timely payment of all Property Charges.

26 **(3) Voluntary Fully Funded LESA**

27 If a Partially or Fully Funded LESA is not required, the Borrower may voluntarily
28 request a Fully Funded LESA to pay their property taxes and insurance premiums.
29 If a Partially Funded LESA is required, the Borrower may voluntarily request a
30 Fully Funded LESA. See [Voluntary Property Charge Funding Options](#).

31 **(4) Calculation for Projected Life Expectancy Property Charges**

32 Mortgagees must calculate Projected Life Expectancy Property Charges for each
33 HECM using:

- 34 • 120 percent of the projected sum of:

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- [current property taxes](#);
- [Hazard Insurance premiums](#); and
- [Flood Insurance premiums](#);
- the [HECM Expected Rate](#); and
- the life expectancy of the youngest Borrower, with the Borrower age rounded up to the nearest whole year if the next birthday is less than 183 Days after the estimated date of closing.

The formula used to calculate Projected Life Expectancy Property Charges is:

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

PC (Property Charges) divided by 12 is the current total monthly Property Charge for property taxes, Hazard Insurance and Flood Insurance.

The current total monthly Property Charge 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 Borrower.

c is the monthly compounding rate which is defined as the Expected Rate plus the annual MIP rate divided by 12. The Expected Rate must be the same rate that is used to determine the Principal Limit.

m is the Total Annual Loan Cost (TALC) life expectancy in total years of the youngest Borrower, with the Borrower age rounded up to the nearest whole year if the next birthday is less than 183 Days after the estimated date of closing, multiplied by 12 (e.g., for a 74-year-old Borrower whose birthday is more than 183 Days after the estimated date of closing, TALC life expectancy is 12 years multiplied by 12 months, which equals 144).

(5) Calculation for Fully Funded LESA

The amount of the Fully Funded LESA equals the [Projected Life Expectancy Property Charge Cost](#).

(6) Calculation for Partially Funded LESA

The formula used to calculate the amount of a Partially Funded LESA is:

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

Monthly Residual Income Shortfall (MRIS) is the difference between the Borrower's monthly Residual Income and the applicable amount of Residual Income for the Borrower's geographic region and family size, based on the [Table of Residual Incomes by Region](#).

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1 m is the TALC life expectancy in total years of the youngest Borrower, with the
2 Borrower age rounded up to the nearest whole year if the next birthday is less
3 than 183 Days after the estimated date of closing, multiplied by 12 (e.g., for a 75-
4 year-old Borrower whose birthday is less than 183 Days from the estimated date
5 of closing, TALC life expectancy equals 132, which is 11 years multiplied by 12
6 months).

7 c is the monthly compounding rate which is defined as the Expected Rate plus the
8 annual MIP rate divided by 12. The Expected Rate must be the same rate that is
9 used to determine the Principal Limit.

10 The MRIS is multiplied by 1.2 to take into account expected increases in property
11 taxes and Hazard and Flood Insurance over the life expectancy of the youngest
12 Borrower.

13 **(7) Life Expectancy Set-Aside Growth Rate**

14 All LESAs increase each month at a rate equal to one-twelfth of the sum of the Note
15 rate plus the annual mortgage insurance premium rate from the date the loan is
16 funded.

17
18 The LESA amount is determined at origination and the remaining LESA balance is
19 adjusted monthly by applying the following formula:

20
21
$$LESA\ Balance_{current\ month} = LESA\ Balance_{prior\ month}(1 + d) - TMLD$$

22
23
$$d = \frac{(Note\ rate + Annual\ MIP)}{12}$$

24
25 LESA Balance_{current month} is the LESA balance in the current month.

26 LESA Balance_{prior month} is the LESA balance in the prior month.

27 d is the LESA growth rate, which is one-twelfth of the sum of the Note rate plus
28 the annual mortgage insurance premium rate.

29 TMLD is the LESA monthly distribution in the current month.

30 **(8) Fully Funded LESA Information to the Borrower**

31 The Mortgagee must inform the Borrower of the following:

- 32
- 33 • funds will be used to pay the taxing authority or insurance carrier directly;
 - 34 • the Mortgagee is responsible for making timely payments to the taxing
35 authority or insurance carrier when funds are sufficient;
 - 36 • the projected amount of funds required to cover the allowed Property
Charges over the estimated life expectancy of the youngest Borrower may

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1 be insufficient to cover Property Charges for the full length of that
2 specified amount of time;

- 3 • no funds will be available during any applicable Deferral Period for an
4 Eligible NBS;
- 5 • the Borrower is responsible for the payment of all Property Charges over
6 the life of the HECM when funds are insufficient or the balance of the
7 LESA is zero; and
- 8 • of when LESA funds are exhausted or the annual analysis shows that the
9 remaining funds will not be sufficient to pay the next year’s allowed
10 property charge payments and the Borrower will be responsible for paying
11 all future Property Charges in writing and within 15 days of analysis.

12 **(9) Partially Funded LESA Information to the Borrower**

13 The Mortgagee must inform the Borrower of the following:

- 14 • the Borrower will receive semiannual payments from the LESA, which
15 must be used to pay the taxing authority and/or insurance carrier;
- 16 • the Borrower is responsible for making timely payments to the taxing
17 authority and/or insurance carrier over the life of the HECM;
- 18 • the projected amount of funds required to cover defined Property Charges
19 over the estimated life expectancy of the youngest Borrower and the
20 income assumptions used to project semiannual distributions to the
21 Borrower may be insufficient to cover Property Charges for the full length
22 of that specified amount of time;
- 23 • no funds will be available during any applicable Deferral Period for an
24 Eligible NBS;
- 25 • the Borrower will no longer receive semiannual payments and will
26 continue to be responsible for the payment of all Property Charges over
27 the life of the HECM when funds are insufficient or the balance of the
28 LESA is zero; and
- 29 • of when LESA funds are exhausted or the annual analysis shows that the
30 remaining funds will not be sufficient to pay the next year’s semiannual
31 distributions in writing and within 15 days of analysis.

32 **(10) Voluntary Property Charge Funding Options**

33 For adjustable rate HECMs, if the Mortgagee does not require a LESA, the
34 Borrower must inform the Mortgagee of the manner in which to pay Property
35 Charges. The Borrower may:

- 36 • elect to have a Fully Funded LESA;
- 37 • elect to have the Mortgagee pay such charges by withholding funds from
38 monthly payments due to the Borrower or by charging such funds to a line
39 of credit; or
- 40 • elect to be responsible for independent payment of all Property Charges.

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1 For fixed rate HECMs, if the Mortgagee does not require a LESA, the Borrower
2 must inform the Mortgagee of the manner in which to pay Property Charges. The
3 Borrower may:

- 4 • elect to have a Fully Funded LESA; or
- 5 • elect to be responsible for independent payment of all Property Charges.

6 The Borrower may not cancel any voluntary election property charge payment
7 option. If the HECM proceeds are insufficient to pay Property Charges, the
8 Borrower must pay all Property Charges, even though the Borrower elected
9 payment to be made by the Mortgagee. For additional Property Charge
10 requirements, see Section III.B. HECM Servicing and Loss Mitigation.

11 **(C) Required Documentation**

12 Mortgagees must provide documented reasons for the amount a LESA has been
13 funded and for approving the HECM when Borrowers do not meet the standards for
14 [Satisfactory Credit History](#), [Satisfactory Property Charge Payment History](#), and
15 [Residual Income](#).

16 **viii. Assets**

17 The underwriter must review the assets of a Borrower and verify that they have been
18 supported with the proper documentation (see [Asset Requirements](#)).

19 **ix. Verifying Initial Mortgage Insurance Premium and Maximum Claim Amount**

20 The underwriter must review the IMIP and MCA and verify that they have been
21 supported with the proper documentation.

22 **x. Servicing Fees**

23 **(A) Definitions**

24 Servicing Fee refers to the monthly amount charged by the Mortgagee when the cost
25 of servicing is not included in the Note rate.

26 Servicing Fee Set-Aside refers to an amount withheld from the HECM proceeds for
27 the payment of the monthly servicing fee.

28 **(B) Standard**

29 The maximum servicing fee that may be charged on a fixed rate or an annually
30 adjustable rate HECM is \$30 per month. The maximum servicing fee that may be
31 charged on a monthly adjustable rate HECM is \$35 per month.

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1 If the Mortgagee chooses to assess a servicing fee, they must establish a Servicing
2 Fee Set-Aside based on payment of the monthly servicing fee calculated for the life
3 expectancy of the youngest Borrower or Eligible NBS, if applicable.

4 **Calculation for Servicing Fee**

5
$$S_k = FEE \times [(1+i)^{(m+1)} - (1+i)] / [i \times (1+i)^m]$$

6 S_k is the Servicing Fee Set-Aside required in the k th month of the HECM, where k at
7 time of loan origination is equal to 1, for future payment of flat monthly loan
8 servicing fees from the Borrower's account, and this amount is constant for the entire
9 month,

10 i is the monthly compounding rate calculated as one-twelfth of the sum of the
11 mortgage interest rate (Note rate) and the annual MIP rate,

12 m is the number of remaining months that the servicing fee could be collected, i.e.,
13 the remaining term on a tenure mortgage in the k th month of the HECM:

14
$$m = 12 \times (100 - \text{Borrower's Age}) - k + 1$$

15 Borrower's Age is the Borrower's age used to calculate the Principal Limit, and FEE
16 is the monthly loan servicing fee charged to the Borrower's account.

17 Where loan servicing charges are included in the mortgage interest rate (Note rate)
18 and are paid as a percentage of the outstanding loan balance, then FEE is zero, and
19 the calculation of S_k results in a zero Set-Aside amount for all months.

20 For all other cases, the Servicing Fee Set-Aside, S_k , will decrease as k increases,
21 reaching zero for:

22
$$k = 12 \times (100 - \text{Borrower's Age})$$

23 **xi. Borrower Approval or Denial**

24 **(A) Re-Processing**

25 The Mortgagee must re-evaluate a HECM when any data element of the HECM
26 changes and/or new Borrower information becomes available. This includes
27 information that may impact the:

- 28 • credit history review;
- 29 • property charge payment history review;
- 30 • monthly expense analysis;
- 31 • Effective Income analysis; and
- 32 • Residual Income analysis.

1 **(B) Documentation of Final HECM Decision**

2 The underwriter must complete the following documents to evidence their final
3 HECM decision. The Mortgagee must complete the following documentation
4 requirements.

5 **(1) Financial Assessment Worksheet**

6 The underwriter must record the following items on the [Financial Assessment](#)
7 [Worksheet](#):

- 8 • their decision;
- 9 • any [Extenuating Circumstances](#) and [Compensating Factors](#);
- 10 • any approval; and
- 11 • their DE Identification Number and signature.

12 **(2) Form HUD-92800.5B, *Conditional Commitment Direct Endorsement***
13 ***Statement of Appraised Value***

14 The underwriter must confirm that form [HUD-92800.5B](#) is completed as directed
15 in the form instructions.

16 **(3) Form HUD-92051, *Compliance Inspection Report*, or Fannie Mae Form**
17 ***1004D/Freddie Mac Form 442, Appraisal Update and/or Completion***
18 ***Report***

19 The underwriter must confirm that form [HUD-92051](#), *Compliance Inspection*
20 *Report*, or Part B of [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal*
21 *Update and/or Completion Report*, is completed when required repairs must be
22 completed before closing.

23 **(4) Form HUD-92900-A, *HUD Addendum to Uniform Residential Loan***
24 ***Application***

25 The underwriter must complete form [HUD-92900-A](#) as directed in the form
26 instructions.

27 An authorized officer of the Mortgagee, Borrower, Eligible NBS, and the
28 underwriter must execute form HUD-92900-A, as indicated in the instructions.

29 **(C) Test Case Phase**

30 The Mortgagee must complete and submit the complete processed HECM application
31 and [Documentation of Final HECM Decision](#) post-closing to FHA for review and
32 issuance of a *Firm Commitment* or Rejection Notice.

1 **(D) Conditional Approval**

2 The underwriter must condition the approval of the Borrower on the completion of
3 the final *RLARM* ([Fannie Mae Form 1009](#)) and form [HUD 92900-A](#) at or before
4 closing if the underwriter relied on an initial *RLARM* and form HUD-92900-A in
5 processing the HECM.

6 **(E) Notification of Borrower of Approval and Term of the Approval**

7 The Mortgagee must timely notify the Borrower of their approval. The underwriter’s
8 approval or the *Firm Commitment* is valid for the greater of 90 Days or the remaining
9 life of the:

- 10 • *Conditional Commitment Direct Endorsement Statement of Appraised Value*
11 issued by HUD; or
- 12 • underwriter’s approval date of the Property, indicated as the Action Date on
13 form [HUD-92800.5B](#).

14 **(F) Borrower and Seller Inspection of the HUD-1 Settlement Statement**

15 The Mortgagee must prepare the HUD-1 Settlement Statement (HUD-1) at least one
16 business day before closing. The Mortgagee must provide a copy of the HUD-1 to the
17 Borrower and seller at least one business day prior to closing.

18 Mortgagees are responsible for the accuracy of the HUD-1. Errors reported by the
19 seller or Borrower must be resolved prior to the date of closing.

20 **(G) Responsibilities upon Denial**

21 When a HECM is denied, the Mortgagee must comply with all requirements of the
22 [FCRA](#), and the Equal Credit Opportunity Act ([ECOA](#)), as implemented by
23 Regulation B ([12 CFR Part 1002](#)). The Mortgagee must complete the Mortgage
24 Credit Reject in [FHAC](#).

25 **6. Closing**

26 **a. Mortgagee Closing Requirements**

27 The case binder must contain all documentation that has been relied upon in support of the
28 Mortgagee’s decision to approve the HECM.

29 **i. Title**

30 The Mortgagee must ensure that all objections to title have been cleared and any
31 discrepancies have been resolved to ensure that the HECM liens are the first and second
32 (if applicable) lien(s) of record.

1 **(A) Good and Marketable Title**

2 The Mortgagee must determine if there are any exceptions to good and marketable
3 title not covered by the General Waiver (see [General HECM Insurance Eligibility](#) and
4 [24 CFR § 203.389](#)).

5 The Mortgagee must review any exceptions discovered during the title search and
6 decide whether such title exceptions affect the Property’s value and/or marketability.

7 If the Mortgagee determines that any exception affects the Property’s value and/or
8 marketability, the Mortgagee must request a waiver.

9 **(B) Requests for Title Exceptions Not Covered by the General Waiver**

10 The Mortgagee must submit a request for a waiver when the Title Exception is not
11 covered by the General Waiver to the attention of the Processing and Underwriting
12 Division Director at the Jurisdictional HOC prior to endorsement. The request must
13 include the case number, the specific guideline and the reason the Mortgagee is
14 asking for the waiver. If the Jurisdictional HOC grants the requested waiver, the HOC
15 will notify the Mortgagee in writing. The Mortgagee must place the notice of
16 approval in the mortgage file.

17 If the waiver request is denied and good and marketable title is not obtained, the
18 HECM is not eligible for FHA insurance.

19 **(C) Evidence of Hazard Insurance Policy**

20 Mortgagees must verify evidence of a Hazard Insurance policy that is at least equal to
21 the value of insurable property improvements.

22 For condominiums, see the Condominiums [Insurance](#) section.

23 **(D) Evidence of Title Insurance Policy or Commitment**

24 The Mortgagee must verify evidence of a title insurance policy at least equal to the
25 MCA. The title insurance policy must show that:

- 26 1. the Borrower owns or, for purchase transactions, will own the Property:
- 27 • in Fee Simple; or
 - 28 • on a Leasehold that is under a lease with a duration lasting until the latter
29 of:
 - 30 ○ a renewable lease for not less than 99 years; or
 - 31 ○ a lease with the actuarial life expectancy of the Mortgagor; and
- 32 2. the Mortgage will be a first lien of record when recorded.

1 **(E) Manufactured Housing**

2 Good and marketable title showing the Manufactured Home and land are classified as
3 real estate at the time of closing is required.

4 If there were two existing titles at the time the housing unit was purchased, the
5 Mortgagee must ensure that all state or local requirements for proper purging of the
6 title (chattel or equivalent debt instrument) have been met, and the subject Property is
7 classified as real estate prior to endorsement. The Manufactured Home need not be
8 taxed as Real Property.

9 **ii. Legal Restrictions on Conveyance (Free Assumability)**

10 The Mortgagee must determine that there are no legal restrictions on conveyance in
11 accordance with [24 CFR § 206.45\(e\)](#).

12 **iii. Closing in Compliance with Mortgage Approval**

13 The Mortgagee must instruct the settlement agent to close the HECM in the same manner
14 in which it was approved.

15 The Mortgagee must ensure that the conditions listed on form [HUD-92900-A](#) and/or form
16 [HUD-92800.5B](#) are satisfied.

17 **iv. Principal Limit Calculation at Closing**

18 **(A) Definition**

19 Float Down Option refers to the calculation of the Principal Limit at closing when the
20 Expected Rate is lower than the Expected Rate used when the lock-in agreement was
21 signed by the Borrower.

22 **(B) Standard**

23 The Mortgagee must calculate the Principal Limit at closing if there is no lock-in
24 agreement. In accordance with the lock-in agreement terms and conditions, if the
25 lock-in agreement includes a float down option, the Mortgagee may recalculate the
26 Principal Limit if the Expected Rate has declined and is now lower than the Expected
27 Rate used for the lock-in agreement.

28 The Mortgagee is not permitted to charge a fee for recalculating the Principal Limit.

29 The Mortgagee must verify the Principal Limit Factor is based on the age of the
30 youngest Borrower or Eligible NBS, rounded up to the nearest whole year if the next
31 birthday is less than 183 Days after closing.

1 **v. Establishing the Note Rate**

2 The Mortgagee must use indices in effect on the date of closing to calculate the first year
3 accrual rate. For adjustable interest rate HECMs, the Mortgagee must use the same
4 mortgagee’s margin that was used to calculate the Principal Limit amount for the initial
5 Note rate and the periodic adjustments to the Note rate.

6 For all interest rate options, the index value used to determine the Note rate must not be
7 below zero.

8 In the event the current index for an adjustable interest rate HECM falls below zero, the
9 current index will be deemed to be zero for purposes of calculating the Borrower’s Note
10 rate.

11 **(A) CMT Index**

12 The weekly averages of the one-month, one-year, and CMT indices are published
13 Mondays, or the following business day if a holiday, in the [Federal Reserve Board
14 Statistical Release H.15](http://www.federalreserve.gov/releases/h15/current) at <http://www.federalreserve.gov/releases/h15/current>. The
15 weekly averages of the 1-month and 1-year CMT are available in the “Treasury
16 constant maturities” section of the H.15.

17 Statistical Release H.15 is often not released until mid- or late afternoon on Monday.
18 Mortgagees closing a HECM on Monday must use the index from the Statistical
19 Release issued the previous Monday (one week earlier), and Mortgagees closing a
20 HECM on Tuesday must use the index from the Statistical Release issued the day
21 before closing.

22 **(B) Secured Overnight Financing Rate (SOFR) Index**

23 The Federal Reserve Bank of New York publishes the 30-day average SOFR index
24 publishes each business day in the “30-Day Average column at:
25 <https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind>. The rate published on the
26 first business day of each week, which is Monday or Tuesday if Monday is a non-
27 publishing day, is effective the next day after the index is published. The rate remains
28 in effect until a subsequent index is published the following week on Monday, or
29 Tuesday if Monday is a non-published day. The published 30-Day Average SOFR
30 index figure shall be rounded to three digits to the right of the decimal point.

31 Mortgagees closing a HECM on Monday must use the index issued the previous
32 Monday (one week earlier), and Mortgagees closing a HECM on Tuesday must use
33 the index from the Federal Reserve Bank of New York website issued the day before
34 closing.

1 **vi. Assignment Insurance Option**

2 **(A) Definition**

3 Assignment Insurance Option refers to a Mortgagee’s right to assign the HECM to
4 HUD when the outstanding balance is equal to or greater than 98 percent of the MCA,
5 or when a request for a line of credit draw will cause the outstanding balance to equal
6 or exceed 98 percent of the MCA.

7 **(B) Standard**

8 The Mortgagee must designate the assignment insurance option.

9 **vii. Closing in the Mortgagee’s Name**

10 A HECM may close in the name of the Mortgagee or the sponsoring Mortgagee, the
11 principal or the authorized agent. TPOs that are not FHA-approved Mortgagees may not
12 close in their own names or perform any functions in [FHAC](#).

13 **viii. Required Forms**

14 The Mortgagee must use the [forms and/or language](#) prescribed by FHA in the legal
15 documents used for closing the HECM.

16 **(A) Mortgage and Note**

17 The Mortgagee must complete a first Mortgage and first Note (fixed or adjustable
18 rate) to secure any payments made by the Mortgagee to the Borrower.

19 **(B) Second Mortgage and Note**

20 For adjustable rate HECMs, the Mortgagee must complete a second Mortgage and
21 second Note to secure any payments that may be made by HUD to the Borrower.

22 **(C) Condominium**

23 If the HECM to be insured is secured by a Condominium Unit, the appropriate
24 mortgage rider must be used. The Mortgagee must obtain the certificate of insurance
25 or complete copy of the insurance policy.

26 **(D) HECM Repair Rider**

27 **(1) Standard**

28 The Mortgagee must obtain a Repair Rider, signed and dated by the Borrower,
29 when the required repairs will be completed after closing.

1 **(2) Required Documentation**

2 The Mortgagee must verify the amount of the Repair Set-Aside is equal to 150
3 percent of the cost of the required repairs, plus the repair administration fee.

4 **(E) Payment of Property Charges**

5 The Mortgagee must verify the loan agreement includes the Borrower’s designation
6 for payment of Property Charges.

7 **ix. HECM Borrower, Non-Borrowing Spouse, and Non-Borrowing Owner**
8 **Certifications**

9 **(A) Standard**

10 The Mortgagee must obtain the Borrower’s and Eligible NBS’s signatures on form
11 [HUD-92900-A](#).

12 The Mortgagee must confirm whether all Borrowers are legally married and obtain
13 the appropriate certification from each Borrower and any NBS. The required
14 certifications, if applicable, are:

- 15 • unmarried Borrower;
- 16 • married Borrower with Eligible NBS;
- 17 • married Borrower with Ineligible NBS;
- 18 • Eligible NBS; or
- 19 • Ineligible NBS.

20 The Mortgagee must obtain certifications from the NBS and any Non-Borrowing
21 Owner that show:

- 22 • consent to the Borrower to obtain HECM financing;
- 23 • acknowledgement of the terms and conditions of the Mortgage; and
- 24 • acknowledgement that the Property will serve as collateral for the HECM as
25 evidenced by the first and second HECM liens.

26 **(B) Required Documentation**

27 At closing, Mortgagees must obtain all required certifications from each Borrower,
28 NBS and Non-Borrowing Owner.

29 **x. Designation of Alternate Individual**

30 Prior to or at closing, the Mortgagee must request that the Borrower designate an
31 alternate individual for the purpose of communicating with the Mortgagee if the
32 Mortgagee is unable to reach the Borrower for any reason, including death or
33 incapacitation. The designation of the alternate individual is at the discretion of the
34 Borrower.

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1 The Mortgagee must use the [Home Equity Reverse Mortgage Information Technology](#)
2 (HERMIT) System to enter contact information for the alternate individual, if provided.

3 If the Mortgagee is unable to make contact or communicate with the Borrower for any
4 reason, including death or incapacitation, the Mortgagee shall communicate with the
5 alternate individual, if one has been designated by the Borrower.

6 **xi. Principal Residence Verification**

7 The Mortgagee must ensure the Property is the Principal Residence of each Borrower and
8 Eligible NBS.

9 **xii. Required Closing Certifications**

10 **(A) Borrower Certification**

11 The Borrower must sign the certification to the [Addendum to HUD-1](#).

12 **(B) Settlement Agent Certification**

13 The settlement agent must sign the certification to the [Addendum to HUD-1](#).

14 **(C) Lender Certification**

15 The Mortgagee must sign the certifications on form [HUD-92900-A](#) in accordance
16 with the instructions provided on the form.

17 **xiii. Inspection and Repair Requirements for HECMs Pending Closing in**
18 **Presidentially-Declared Major Disaster Areas**

19 **(A) Standard**

20 All Properties with HECMs pending closing in areas under a Presidentialy-Declared
21 Major Disaster Area (PDMDA) designated for individual assistance must have an
22 onsite damage inspection report that identifies and quantifies any dwelling damage,
23 which includes interior and exterior photographs. The damage inspection report must
24 be completed by an FHA Roster Appraiser even if the inspection shows no damage to
25 the Property, and the report must be dated after the Incident Period (as defined by
26 [FEMA](#)) or 14 Days from the Incident Period start date, whichever is earlier. If the
27 effective date of the appraisal is on or after the date required above for an inspection,
28 a separate damage inspection report is not necessary.

29 FHA does not require the Appraiser to ensure utilities are on at the time of this
30 inspection if they have not yet been restored for the area.

31 Damage inspections should be completed by the original Appraiser. However, if the
32 original Appraiser is not available, another FHA Roster Appraiser in good standing

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1 with geographic competence in the affected market may be used. If the Mortgagee
 2 uses a different Appraiser to inspect the Property, the Appraiser performing the
 3 damage inspection must be provided with a complete copy of the original appraisal.

4 All damages must be repaired by licensed contractors or according to local
 5 jurisdictional requirements. All damages, regardless of amount, must be repaired and
 6 the Property restored to pre-loss condition with appropriate and applicable
 7 documentation.

8 Based on the damage amount, repairs may be:

- 9 • completed prior to closing; or
- 10 • completed after closing provided that required repairs are included in a Repair
 11 Rider, if sufficient funds are available for a Repair Set-Aside, and repair costs
 12 do not exceed permissible thresholds. See [Pending HECM Closing](#) table.

13 For HECM for Purchase transactions, see the [Inspection and Repair Requirements for
 14 HECMs Pending Closing in Presidentially-Declared Major Disaster Areas](#) section in
 15 the HECM for Purchase product sheet.

16 **(B) Required Documentation**

17 Mortgagees must include the damage inspection report in the case binder for all
 18 Properties. The following table shows additional required documentation based on the
 19 extent of damages.

Pending HECM Closing	
If...	Then...
No damage exists,	Close HECM and provide initial damage inspection report.
Damages are below \$5,000 and Property is habitable,	(1) Complete repairs prior to closing and provide initial damage inspection report; or (2) Establish Repair Set-Aside prior to closing and provide initial damage inspection report and Repair Rider. See applicable section in the HECM for Purchase product sheet.
Damages are above \$5,000 and the Property is habitable,	Do not close the HECM. Repairs must be completed prior to closing. Provide initial and final damage inspection report.
The Property is not habitable,	Do not close the HECM. Repairs must be completed prior to closing. Provide initial and final damage inspection report.

1 **(C) Pre-Closing Appraisal Validity in Disaster Areas**

2 For HECMs that are not closed prior to the Incident Period, as defined by [FEMA](#), in
3 PDMDAs where a damage inspection report reveals property damage, the appraisal
4 validity period is extended from 120 Days to a maximum of one year from the
5 effective date of the original appraisal.

6 In no instance will an appraisal be acceptable for a mortgage closing that has an
7 effective date beyond one year. HECMs with appraisals having effective dates in
8 excess of one year require a new appraisal.

9 **xiv. Closing Costs and Fees**

10 **(A) Standard**

11 The Mortgagee must ensure that all fees charged to the Borrower comply with all
12 applicable federal, state, and local laws and disclosure requirements.

13 The Mortgagee must ensure, after the initial payment of HECM proceeds, that there
14 will be no outstanding or unpaid obligations incurred by the Borrower in connection
15 with the HECM transaction, except in cases involving loan servicing charges and any
16 Repair Set-Aside.

17 **(1) Mandatory Obligations**

18 **(a) Definition**

19 Mandatory Obligations refer to fees and/or charges incurred in connection
20 with the origination of the HECM that are requirements for loan approval and
21 which will be paid at closing or during the First 12-Month Disbursement
22 Period.

23 **(b) Standard**

24 The Mortgagee must ensure the Borrower's Mandatory Obligations are paid
25 off.

26 Mandatory Obligations are limited to:

- 27 • IMIP;
- 28 • loan origination fee;
- 29 • HECM counseling fee;
- 30 • reasonable and customary amounts, but not more than the amount
31 actually paid by the Mortgagee for any of the following items:
 - 32 ○ recording fees and recording taxes, or other charges incident to the
33 recording of the HECM;
 - 34 ○ credit report;

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- survey, if required by the Mortgagee or the Borrower;
- title examination;
- Mortgagee’s title insurance;
- fees paid to an Appraiser for the appraisal of the Property; and
- flood certification;
- repair administration fee;
- Repair Set-Asides;
- delinquent Federal Debt;
- amounts required to discharge any existing liens on the Property:
 - judgment liens recorded against the Property secured by the HECM;
- customary fees and charges for warranties, inspections, surveys, and engineer certifications;
- funds to pay contractors who performed repairs as a condition of closing, in accordance with standard FHA requirements for repairs required by the Appraiser;
- property tax, Flood and Hazard Insurance payments required by the Mortgagee to be paid at closing;
- for fixed rate HECMs: the total amount of Property Charges scheduled for payment during the First 12-Month Disbursement Period from a Fully Funded LESA. Mortgagees must use the actual insurance premium and actual tax amount; and
- for adjustable rate HECMs:
 - the total amount of property charge payments scheduled for payment from the Borrower-authorized option as set forth in [24 CFR § 206.205](#) during the First 12-Month Disbursement Period;
 - the total amount of semiannual Disbursements scheduled to be made during the First 12-Month Disbursement Period to the Borrower from a Partially Funded LESA; and
 - the total amount of Property Charges scheduled for payment during the First 12-Month Disbursement Period from a Fully Funded LESA. Mortgagees must use the actual insurance premium and actual tax amount.

(2) Seasoning Requirements for Existing Non-HECM Liens that are Considered Mandatory Obligations

(a) Standard

The Mortgagee must determine the age of the lien and, if necessary, the amount of funds provided to the Borrower. The Mortgagee may use HECM proceeds to pay off existing non-HECM liens if:

- the liens have been in place for at least 12 months prior to the date of the HECM closing;

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- the lien resulted in the Borrower receiving \$500 or less in cash, whether at closing or through cumulative draws prior to the date of the HECM closing; or
- the lien has been in place for less than 12 months prior to the date of the HECM closing, but funds were used exclusively for the purpose of making home improvements.

(b) Required Documentation

To document the age of the lien, the Mortgagee must use the HUD-1, Closing Disclosure, or other documents, such as a title report, credit reports, or documents related to the transaction that contain the required information.

To document the Borrower received \$500 or less in cash, the Mortgagee must review the HUD-1 or equivalent document from the transaction that resulted in a lien that is to be paid off using HECM proceeds, the payoff statement, or documents related to the transaction.

To document the use of funds from a lien in place for less than 12 months, where more than \$500 was received by and/or disbursed to the Borrower, and such funds were utilized for home improvements, the Mortgagee must collect documentation, such as canceled checks, paid contractor invoices, or other documents evidencing actual use of loan funds.

(3) Home Equity Lines of Credit

(a) Standard

The Mortgagee may pay off the Borrower's Home Equity Line of Credit (HELOC) using Borrower funds, the HECM proceeds, or a combination of HECM proceeds and Borrower funds, as long as the HECM funds advanced at closing does not exceed 60 percent of the Principal Limit.

There are no seasoning requirements associated with the payoff of a Borrower's HELOC.

(b) Required Documentation

The Mortgagee must obtain the most recent HELOC statement or its equivalent.

(4) Third-Party Fees

The Mortgagee may charge the Borrower third-party fees incurred to originate the HECM. The local HOC may authorize or reject any other charge, or the amount of any charge, based on what is reasonable and customary in the area.

1 **(a) Appraisal Fee and Inspection Fee**

2 The Mortgagee may charge reasonable and customary amounts, but not more
3 than the amount actually paid by the Mortgagee. The Borrower may finance
4 the cost of a second appraisal required by the collateral risk assessment.

5 **(b) Credit Report**

6 The Mortgagee may charge the actual cost for a merged-in file report, which
7 contains the information currently available from three consumer credit
8 information repositories.

9 **(c) Deposit Verification Charge**

10 The Mortgagee may charge the actual charge imposed by the depository
11 institution or TPV.

12 **(d) Document Preparation Fee**

13 The Mortgagee may charge a document preparation fee if this service is
14 performed by a third party who is not controlled by the Mortgagee. The
15 Mortgagee may not charge a fee if it performs this service itself.

16 **(e) Property Survey**

17 The Mortgagee may charge a property survey fee if a survey is required by the
18 Mortgagee. A survey is not required by FHA.

19 **(f) Title Examination and Title Insurance Policy**

20 A title insurance policy at least equal to the MCA must be submitted in the
21 closing package, and the Borrower may pay for these items.

22 **(g) Attorney's Fees**

23 The Mortgagee may charge Attorney's Fees only if the attorney is not an
24 employee of the Mortgagee, or is not an attorney who routinely receives
25 referrals from a particular Mortgagee and issues the title insurance. If an
26 attorney who is not an employee of the Mortgagee is routinely used on referral
27 from the Mortgagee to close loans and issue title insurance, the Borrower may
28 only be charged a notary fee.

29 **(h) Settlement Fees**

30 The Mortgagee may charge settlement fees only if the closing agent is not an
31 employee of the Mortgagee. A fee may be charged if the settlement agent is

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1 an independent company or a subsidiary of the Mortgagee that regularly
2 closes loans for several different Mortgagees.

3 **(i) Sponsored Third-Party Originator**

4 The Mortgagee may pay fees for services performed by a sponsored TPO
5 from the loan origination fee.

6 **(j) Tax Service Fee**

7 The Mortgagee may charge the Borrower a tax service fee to verify the
8 Borrower's [property tax payment history](#) from all taxing authorities and the
9 annual amount of property taxes due. The maximum fee must be a reasonable
10 and customary amount and may not exceed the actual amount paid by the
11 Mortgagee.

12 **(k) Recording Fees and Taxes**

13 The Mortgagee may charge recording fees on the first and second Mortgages
14 that are customary or required in the area, and recording taxes on the first
15 Mortgage that are required. The second Mortgage is not subject to any state or
16 local recording taxes, or stamp taxes, because the second Mortgage is a
17 Mortgage to the federal government.

18 **(l) Tests or Treatments**

19 The Mortgagee may charge for tests or treatments required by FHA such as
20 tests of water supplies, soil percolation tests for individual septic systems, or
21 testing for or treating insect infestation.

22 **(m) Courier Fees**

23 Upon Borrower request, the Mortgagee may charge a courier fee for delivery
24 of a mortgage payoff to a lien holder and for closing documents to and from
25 the settlement agent. If this arrangement will take place, a written agreement
26 between the Borrower and the Mortgagee must be executed before closing.

27 Online processing and delivery of a mortgage payoff to a lien holder and for
28 closing documents to and from the settlement agent are the sole responsibility
29 of the Mortgagee and must be paid from the loan origination fee.

30 **(5) Property Assessed Clean Energy**

31 The PACE obligation must be paid off in full at closing. The Borrower may use
32 HECM proceeds to satisfy the PACE obligation.

1 **(6) Prohibition on Non-Mandatory Obligations**

2 Judgments that appear on the credit report or on public records that are not liens
3 against the Property secured by the HECM are not Mandatory Obligations and
4 may not be paid off at closing using HECM proceeds.

5 **(7) Collecting Customary and Reasonable Fees**

6 The Mortgagee may collect customary and reasonable amounts, but not more than
7 the amount actually paid by the Mortgagee, for any of the following items:

- 8 • recording fees and recording taxes, or other charges incident to the
- 9 recording of the insured Mortgage;
- 10 • credit report;
- 11 • survey, if required by the Mortgagee or the Borrower;
- 12 • title examination;
- 13 • Mortgagee’s title insurance;
- 14 • fees paid to an Appraiser for the initial appraisal of the Property;
- 15 • flood certifications;
- 16 • third-party property tax verification fee; and
- 17 • repair administration fee.

18 If the Property requires repairs after closing in order to meet FHA requirements,
19 the Mortgagee must collect the repair administration fee by adding it to the
20 mortgage balance.

21 **(8) Loan Origination Fees**

22 **(a) Definition**

23 Loan Origination Fee refers to charges and fees incurred in connection with
24 the origination, processing, and closing of the HECM.

25 **(b) Loan Origination Fee Calculation**

26 The Mortgagee may charge an origination fee which is the greater of:

- 27 • \$2,500; or
- 28 • 2 percent of the MCA of \$200,000; plus 1 percent of any portion of the
29 MCA that is greater than \$200,000.

30 The total amount of the loan origination fee may not exceed \$6,000.
31 Mortgagees may accept a lower origination fee.

32 Mortgagees may pay fees for services performed by a sponsored TPO and
33 these fees may be included as part of the loan origination fee. The loan
34 origination fee may be fully financed with the Mortgagee.

1 **(B) Required Documentation**

2 The Mortgagee must obtain the final HUD-1 Settlement Statement or similar legal
3 document from the settlement agent.

4 **xv. Payment of Initial Mortgage Insurance Premium**

5 Payment of IMIP is processed automatically once the originating Mortgagee or servicing
6 Mortgagee completes loan setup in HERMIT.

7 **xvi. Annual Mortgage Insurance Premium**

8 The Mortgagee must remit the monthly MIP on the outstanding balance from the latter of
9 the date of closing or the day after the expiration of the rescission period.

10 **xvii. Closing Date**

11 The Mortgagee must enter the Closing Date in block I on page 1 of the HUD-1.

12 **xviii. Disbursement Date**

13 **(A) Definition**

14 The Disbursement Date refers to the date the proceeds of the HECM are made
15 available to the Borrower.

16 **(B) Standard**

17 The Disbursement Date must occur before the expiration of the FHA-issued *Firm*
18 *Commitment* or DE approval and credit documents. The Mortgagee must enter the
19 Disbursement Date in block I on page 1 of the HUD-1.

20 **xix. Upload of Marriage Documentation in HERMIT**

21 Once the originating Mortgagee or servicing Mortgagee completes loan setup in
22 HERMIT, the Mortgagee must also upload a marriage certificate, legal opinion certifying
23 the validity of the marriage, or other evidence sufficient to establish the legal validity of
24 the marriage in HERMIT.

25 **xx. Right of Rescission and Interest Accruals**

26 HECM proceeds may not be disbursed until after the expiration of the three-day
27 rescission period under 12 CFR Part 1026, if applicable.

28 The interest charged on the outstanding loan balance must begin to accrue from the
29 Disbursement Date and must be added to the outstanding loan balance monthly.

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1 Mortgagees are prohibited from charging interest on funds held available for the
2 Borrower during the three-day rescission period.

3 **xxi. Signatures**

4 The Mortgagee must ensure that the Mortgage, Note, and all closing documents are
5 signed by all required parties in accordance with [Borrower Eligibility](#).

6 The Mortgagee must ensure that the signatures block on the Mortgage follows the Fannie
7 Mae/Freddie Mac format, with the following exceptions: witness signatures are only
8 required if witnesses are required by state law; and the Borrower's SSN may be omitted.

9 **xxii. Use of Power of Attorney at Closing**

10 **(A) Standard**

11 A Borrower, NBS, or Non-Borrowing Owner may designate an attorney-in-fact to use
12 a POA (durable or otherwise) to sign documents on their behalf at closing.

13 Unless required by applicable state law, or as stated in the Exception below, or they
14 are a Family Member of the Borrower, NBS, or Non-Borrowing Owner, none of the
15 following persons connected to the transaction may sign the security instrument or
16 Note as the attorney-in-fact under a POA:

- 17 • Mortgagee, or any employee or Affiliate;
- 18 • HECM originator, or employer or employee;
- 19 • title insurance company providing the title insurance policy, the title agent
20 closing the HECM, or any of their Affiliates; or
- 21 • any real estate agent or any person affiliated with such real estate agent.

22 **(B) Exception**

23 Closing documents may be signed by an individual who is connected to the
24 transaction provided they are listed as an attorney-in-fact in a POA expressly
25 authorizing them to execute the required documents on behalf of a Borrower, NBS, or
26 Non-Borrowing Owner. Acceptance of such an attorney-in-fact's signature is further
27 conditioned upon the attorney-in-fact obtaining, in a recorded interactive session
28 conducted via the internet, a statement that the Borrower, NBS, or Non-Borrowing
29 Owner has:

- 30 • confirmed their identity; and
- 31 • reaffirmed, after an opportunity to review the required mortgage documents,
32 their agreement to the terms and conditions of the required mortgage
33 documents evidencing such transaction and to the execution of such required
34 Mortgage by such attorney-in-fact.

1 **(C) Required Documentation**

2 The Mortgagee must obtain copies of the signed initial and final *RLARM* (Fannie Mae
3 Form 1009), loan agreement, *Certificate of HECM Counseling*, and Part IV of the
4 initial form HUD-92900-A signed by the Borrower or attorney-in-fact in accordance
5 with [Signature Requirements for all Application Forms](#).

6 **xxiii. Use of Court-Appointed Conservator or Guardian**

7 **(A) Standard**

8 A court-appointed conservator or guardian may execute any necessary documents of
9 any Borrower, NBS, or Non-Borrowing Owner lacking legal competency.

10 **(B) Required Documentation**

11 The Mortgagee must obtain a copy of the court order granting the conservator or
12 guardian the authority to act for and/or obligate the Borrower, NBS, or Non-
13 Borrowing Owner.

14 **b. Mortgage and Note**

15 **i. Definitions**

16 Mortgage refers to any form of security instrument that is commonly used in a
17 jurisdiction in connection with a loan secured by a one- to four-family residential
18 Property and the land on which it is situated, such as a deed of trust or security deed or
19 land contract.

20 Note refers to any form of credit instrument commonly used in a jurisdiction to evidence
21 a Mortgage.

22 **ii. Standard**

23 The Mortgagee must develop or obtain a separate Mortgage and Note that conforms
24 generally to the Freddie Mac and Fannie Mae forms in both form and content, but that
25 includes the specific modification required by FHA set forth in the applicable [Model](#)
26 [Note and Mortgage](#). The Mortgagee must ensure that the Mortgage and Note comply with
27 all applicable federal, state, and local requirements for creating a recordable and
28 enforceable Mortgage, and an enforceable Note.

29 At least one Borrower obligated on the Note must be on the title.

30 Mortgagees originating a HECM in escrow closing states must arrange to have the
31 Borrower sign the Note while the same interest rates are in effect as when the mortgage
32 documents are drawn.

1 **(A) Maximum Mortgage Amount**

2 FHA policy does not require a maximum mortgage amount to be stated in the
3 Mortgage. Where state law requires the Mortgage to reflect a maximum mortgage
4 amount, the Mortgagee must use an amount that is at least equal to 150 percent of
5 the MCA. When a maximum mortgage amount is stated in the Mortgage, the
6 Mortgagee is not secured for payments to the Borrower beyond the stated amount.
7 Where state law does not require the Mortgage to reflect a maximum mortgage
8 amount, the Mortgagee may use an amount that is at least equal to 150 percent of
9 the MCA.

10 **(B) Rounding Interest Rates**

11 The Mortgagee may round the Expected Rate or the Adjustable Rate Mortgage
12 (ARM) Note rate to the nearest one-eighth ($1/8^{\text{th}}$) of one percentage point, either up
13 or down. The Mortgagee must maintain the same rounding throughout the life of
14 the HECM.

15 The Mortgagee may round both rates, only one rate, or none of the rates.

16 **(C) Commingling of Index Types**

17 Commingling of index types between the Expected Rate and Note rate is only
18 allowed for annual adjustable rate HECMs.

19 **c. Adaptation of Loan Documents**

20 Mortgagees must make the necessary and appropriate modifications to the Mortgage, Note,
21 and the loan agreement to ensure compliance with FHA requirements as well as other
22 federal, state, and local laws. Mortgagees may make adaptations without HUD approval.

23 **d. Disbursement of HECM Proceeds**

24 The Mortgagee must verify that HECM proceeds are disbursed in the proper amount to the
25 Borrower or to the debt holder. At closing, the HECM proceeds disbursed by the Mortgagee
26 and any funds received from, or on behalf of, the Borrower must equal the total required for
27 closing.

28 The sum of all advances permitted under the HECM must not exceed the Principal Limit.
29 The Borrower may bring available funds to closing to bring the sum of all anticipated
30 advances within the Principal Limit. See [Insufficient HECM Proceeds](#).

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7. Post-Closing and Endorsement

1 **i. Insufficient HECM Proceeds**

2 If there are insufficient funds for Disbursement, the Mortgagee must ensure the Borrower
3 brings funds to closing to satisfy all obligations in excess of the Initial Disbursement
4 Limit or Borrower’s Advance, which cannot exceed the Principal Limit.

5 **ii. Required Documentation**

6 The Mortgagee must obtain a signed and dated [Payment Plan Exhibit](#) from the Borrower.

7 **7. Post-Closing and Endorsement**

8 **a. Pre-Endorsement Review**

9 The Mortgagee must complete a pre-endorsement review of the mortgage file to ensure all
10 applicable documents as described in the [HECM Case Binder Stacking Order](#) are included in
11 the endorsement submission. The Mortgagee must exercise due diligence in performing its
12 pre-endorsement responsibilities. This review must be conducted by staff not involved in the
13 originating, processing, or financial assessment of the HECM. The case binder must contain
14 all documentation relied upon by the Mortgagee to justify its decision to approve the HECM.

15 **b. Mortgage Pre-Endorsement Review Requirements**

16 When conducting the pre-endorsement review, the Mortgagee must review and verify data
17 entered in FHA Connection is accurate and correct based on documentation contained in the
18 case binder. The Mortgagee must also review and verify the following items, as applicable.
19 All documents must be legible.

20 **i. HECM [Late Submission](#) Letter**

21 **ii. Financial Assessment Worksheet or Equivalent**

22 The Mortgagee must confirm that the form is completed, containing all information for
23 HECM approval and LESA requirements. The form must be signed and dated by the
24 underwriter.

25 **iii. Borrower and Non-Borrowing Spouse Certifications**

26 The Mortgagee must confirm any required certification is completed in accordance with
27 FHA requirements.

28 **iv. Evidence of Age**

29 The Mortgagee must confirm evidence of the Borrower’s age and NBS’s age, if
30 applicable, is included.

1 **v. Evidence of the Social Security Number**

2 The Mortgagee must confirm that the HECM file contains evidence of the Borrower's
3 and any Eligible NBS's SSN.

4 **vi. HECM Counseling Certificate**

5 The Mortgagee must confirm that the HECM file contains the *Certificate of HECM*
6 *Counseling*, received from a Participating Agency and signed by the Borrower and
7 counselor.

8 The Mortgagee must confirm that the HECM file contains evidence of lack of Borrower,
9 NBS, and Non-Borrowing Owner competency if HECM counseling is not provided
10 directly to any HECM Borrower, NBS, or Non-Borrowing Owner.

11 **vii. Note (Including HECM Second Note, if Applicable)**

12 The Mortgagee must confirm that the Note is the Authoritative Copy, the Borrower name
13 on the Note matches that on the *RLARM* ([Fannie Mae Form 1009](#)), and the required
14 language from the [Model Note](#) is present. The Mortgagee must also confirm that:

- 15 • the Note has been executed;
- 16 • the maximum principal amount, if required by state law, is not higher than the
17 amount referenced on the security instrument; and
- 18 • all applicable allonges, agreements, and riders are properly executed.

19 For Test Cases, the Mortgagee must ensure that the Borrower's name on the Note
20 matches form [HUD-92900.4](#), *Firm Commitment*.

21 **viii. HECM Security Instrument**

22 The Mortgagee must confirm that the security instrument:

- 23 • is the Authoritative Copy;
- 24 • has been executed (along with all riders indicated on the last page of the security
25 instrument);
- 26 • includes, as applicable, a mortgage amount that is at least equal to 150 percent of
27 the MCA;
- 28 • lists the same property address as the appraisal; and
- 29 • lists the FHA case number.

30 **ix. HECM Second Security Instrument**

31 The Mortgagee must confirm that the HECM file contains a copy of the second security
32 instrument and Note, if applicable.

33 The Mortgagee must ensure that the recorded HECM second security instrument is
34 mailed directly to HUD's HECM servicing contractor.

II. Origination through Post-Closing/Endorsement
B. Title II Insured Housing Programs Home Equity Conversion Mortgages
7. Post-Closing and Endorsement

1 After closing, the Mortgagee must record the first and second Mortgages. The second
2 Mortgage is not subject to any state or local recording taxes, or stamp taxes, because the
3 second Mortgage is a Mortgage to the federal government. Recording fees, which are a
4 charge for a service, may be imposed by the local recording office.

5 **x. Settlement Statement and Settlement Certification**

6 Mortgagees are responsible for the accuracy of the Settlement Statement or similar legal
7 document.

8 The Mortgagee must confirm that the Settlement Statement or similar legal document and
9 the Settlement Certification, if applicable, are complete and signed by the Borrower,
10 seller, as applicable, and settlement agent. If the HUD-1 Settlement Statement or similar
11 legal document is provided separately, the Mortgagee must obtain from the Closing
12 Agent a copy of the final statement provided to the seller to keep in the case binder.

13 The Settlement Statement or similar legal document must indicate that all existing
14 mortgage liens have been fully satisfied, or are subordinate to the first and second HECM
15 liens.

16 The [Settlement Certification](#) must contain certification language.

17 Mortgagees may not change or alter the certification language; exact wording must be
18 used. A Notice of Rejection will be issued when the certification is missing from the
19 FHA case binder.

20 **xi. Payoff Demands**

21 The Mortgagee must confirm the most recent payoff demand for any mortgage debt paid
22 off using HECM proceeds is included.

23 **xii. Notice to Borrower**

24 The Mortgagee must confirm the notice is included.

25 **xiii. Loan Agreement and Related Exhibits**

26 The Mortgagee must confirm the original loan agreement and the following related
27 exhibits are included and are accurate:

- 28 • schedule of closing costs and liens;
- 29 • payment plan; and
- 30 • Repair Rider, if applicable.

1 **xiv. Final Residential Loan Application for Reverse Mortgages**

2 The Mortgagee must confirm the *RLARM* ([Fannie Mae Form 1009](#)) is signed and dated
3 by the Mortgagee and all Borrowers and/or, if applicable, attorney-in-fact. If the final
4 *RLARM* is not signed by the Mortgagee, the initial application signed by the Mortgagee is
5 acceptable.

6 **xv. Form HUD-92900-A, HUD Addendum to Uniform Residential Loan Application**

7 The Mortgagee must confirm that form [HUD-92900-A](#), *HUD Addendum to Uniform*
8 *Residential Loan Application*, is completed as instructed by FHA and *RLARM* (Fannie
9 Mae Form 1009).

10 **xvi. Seasoning Documentation**

11 The Mortgagee must confirm documentation supporting compliance with seasoning
12 requirements for existing non-HECM liens is included, if applicable.

13 **xvii. Financial Assessment Documentation**

14 The Mortgagee must confirm that documentation verifying and supporting the following
15 is included:

- 16 • credit history, including a credit report, evidence of CAIVRS authorization code
17 and a General Services Administration (GSA)/LDP check;
- 18 • income verification;
- 19 • asset verification;
- 20 • property charge verification;
- 21 • Residual Income analysis worksheet;
- 22 • tax deferral waiver or exemption;
- 23 • HECM for Purchase transactions must include documentation to indicate the
24 Borrower's recent debts were not borrowed to meet the monetary investment
25 requirement;
- 26 • cited Extenuating Circumstances and/or Compensating Factors;
- 27 • Mortgagee's decision to require a Fully Funded or Partially Funded LESA; and
28 • calculation of the amount of any LESA.

29 Mortgagees must ensure that the Borrower certifies the accuracy and completeness of the
30 financial information.

31 **xviii. Good Faith Estimate**

32 The Mortgagee must confirm the initial and any revised GFEs are included.

1 **xix. Credit Report(s)**

2 The Mortgagee must confirm that the HECM file contains a credit report for each
3 Borrower. If there are multiple credit reports, all credit reports must be submitted in the
4 case binder.

5 **xx. CAIVRS Report**

6 The Mortgagee must confirm that the HECM file contains a clear CAIVRS report or
7 documentation from the creditor agency to support the verification and resolution of the
8 debt.

9 **xxi. Asset Verification**

10 The Mortgagee must confirm that the HECM file contains the VOD and/or bank
11 statements.

12 **xxii. Gift Letter**

13 The Mortgagee must confirm that the HECM file contains a gift letter, if applicable.

14 **xxiii. Total Annual Loan Cost Documentation**

15 The Mortgagee must ensure the TALC documentation is included.

16 **xxiv. Evidence of Calculations**

17 The Mortgagee must confirm evidence of calculations is included for:

- 18 • Principal Limit;
- 19 • monthly payment; and
- 20 • line of credit.

21 A screen print is acceptable.

22 **xxv. Life Expectancy Set-Aside**

23 The Mortgagee must ensure LESA calculations are included, if applicable.

24 **xxvi. Power of Attorney, Conservator or Guardian**

25 The Mortgagee must ensure a durable POA or legal document appointing a conservator
26 or guardian, if applicable, is included.

27 **xxvii. Assignment Insurance Option**

28 The Mortgagee must ensure selection of the assignment insurance option.

1 **xxviii. Form HUD-92800.5B, Conditional Commitment Direct Endorsement**
2 **Statement of Appraised Value**

3 The Mortgagee must ensure form [HUD-92800.5B](#), *Conditional Commitment Direct*
4 *Endorsement Statement of Appraised Value*, is included.

5 **xxix. Form HUD-92051, Compliance Inspection Report, or Fannie Mae Form**
6 **1004D, Appraisal Update and/or Completion Report, if Applicable**

7 The Mortgagee must confirm that form HUD-92051, *Compliance Inspection Report*, or
8 Fannie Mae Form 1004D/Freddie Mac Form 442, *Appraisal Update and/or Completion*
9 *Report, Part B*, is completed, signed and dated by an approved inspector. Local
10 government inspection with the underwriter certification may be accepted.

11 **xxx. Other Property Inspections and Reports, if Applicable**

12 The Mortgagee must ensure the HECM file contains property inspections and reports to
13 address deficiencies noted by the Appraiser or otherwise required by the Mortgagee to
14 meet MPR.

15 **xxxi. Appraisal Report**

16 The Mortgagee must ensure that the appraisal reporting form for the property type is
17 uploaded to the legacy EAD portal or FHA Catalyst: EAD Module, including all
18 attachments and addenda, is complete, and contains the Appraiser's signature and date.

19 **xxxii. Flood Certification**

20 The Mortgagee must ensure the Life of Loan Flood Certification is included. If
21 applicable, the Mortgagee must also obtain a:

- 22 • FEMA LOMA;
- 23 • FEMA LOMR; or
- 24 • FEMA NFIP Elevation Certificate ([FEMA Form 086-0-33](#))

25 **xxxiii. Specialized Eligibility Documents**

26 The Mortgagee must ensure that the file contains all required program-specific
27 documents, including:

- 28 • form [HUD-92561](#), *Borrower's Contract with Respect to Hotel and Transient Use*
29 *of Property* (required on two-, three-, or four-unit Properties);
- 30 • Certification for Individual Unit Financing for condominiums; and
- 31 • Manufactured Housing Engineer's Certification for Manufactured Housing
32 Foundation.

1 **xxxiv. Existing Properties Exhibits**

2 The Mortgagee must confirm that the documentation requirements found in the [Property](#)
3 [Acceptability Criteria](#) section are in the mortgage file.

4 **xxxv. Hazard Insurance**

5 The Mortgagee must ensure the Hazard Insurance policy is equal to the value of the
6 property improvements.

7 **xxxvi. Title Insurance**

8 The Mortgagee must ensure the HECM file contains a Title Insurance Commitment or
9 other acceptable evidence of title insurance, in an amount not less than the MCA. The
10 title insurance policy must show the Borrower owns the Property in Fee Simple or on a
11 Leasehold that complies with FHA requirements, and that the Mortgage will be a first
12 lien of record when recorded.

13 **c. Inspection and Repair Requirements for HECMs Pending Endorsement in**
14 **Presidentially-Declared Major Disaster Areas**

15 **i. Standard**

16 All Properties with HECMs pending endorsement in areas under a PDMDA designated
17 for individual assistance must have an onsite damage inspection report that identifies and
18 quantifies any dwelling damage, which includes interior and exterior photographs. The
19 damage inspection report must be completed by an FHA Roster Appraiser even if the
20 inspection shows no damage to the Property, and the report must be dated after the
21 Incident Period (as defined by [FEMA](#)) or 14 Days from the Incident Period start date,
22 whichever is earlier. If the effective date of the appraisal is on or after the date required
23 above for an inspection, a separate damage inspection report is not necessary.

24 FHA does not require the Appraiser to ensure utilities are on at the time of this inspection
25 if they have not yet been restored for the area.

26 Damage inspections should be completed by the original Appraiser. However, if the
27 original Appraiser is not available, another FHA Roster Appraiser in good standing with
28 geographic competence in the affected market may be used. If the Mortgagee uses a
29 different Appraiser to inspect the Property, the Appraiser performing the damage
30 inspection must be provided with a complete copy of the original appraisal.

31 All damages must be repaired by licensed contractors or according to local jurisdictional
32 requirements. All damages, regardless of amount, must be repaired and the Property
33 restored to pre-loss condition with appropriate and applicable documentation.

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1 Based on the damage amounts shown in the table below (see the Pending HECM
2 Endorsement table), repairs may be:

- 3 • completed prior to submitting for endorsement; or
- 4 • completed after endorsement provided that a repair escrow is established, and
5 repair costs do not exceed permissible thresholds.

6 The terms and conditions of establishing a repair escrow are not under FHA’s purview
7 and must be negotiated between the Borrower and Mortgagee.

8 **ii. Required Documentation**

9 Mortgagees must include the initial damage inspection report in the case binder for all
10 Properties. The following table shows additional required documentation for Properties
11 that have closed but have not been endorsed.

Pending HECM Endorsement	
If...	Then...
No damage exists,	Submit the HECM for endorsement and provide the initial damage inspection report.
Damages are below \$5,000 and Property is habitable,	(1) Complete repairs prior to submitting for endorsement and provide the initial damage inspection report; or (2) Establish a repair escrow prior to submitting for endorsement and provide the initial damage inspection report and repair escrow statement.
Damages are above \$5,000 and Property is habitable,	Do not submit the HECM for endorsement. Repairs must be completed prior to endorsement. Provide the initial and final damage inspection report.
The Property is not habitable,	Do not submit the HECM for endorsement. Repairs must be completed prior to endorsement. Provide the initial and final damage inspection report.

12 **d. Procedures for Endorsement**

13 The Mortgagee must remit the IMIP before endorsement of the HECM. To initiate the
14 insurance endorsement process, the originating or servicing Mortgagee must complete loan
15 setup in HERMIT within 15 Days of closing to initiate HUD’s collection of IMIP.
16 Mortgagees may access HERMIT for the IMIP that must be remitted. Once IMIP is remitted,
17 the Mortgagee must complete the Insurance Application function in [FHAC](#) and compile the
18 uniform case binder with all of the necessary documents.

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages
7. Post-Closing and Endorsement

1 Instructions for specific requirements for data format and delivery to FHAC are found in the
2 [FHA Connection Guide](#).

3 Either the sponsoring Mortgagee, principal, or authorized agent must:

- 4 • submit evidence of assignment of the case for endorsement in the name of the
5 originating Mortgagee; and
- 6 • transfer the case number to another Mortgagee prior to closing, complete the Lender
7 Transfer screen in [FHAC](#), and complete the assignment of the HECM after
8 endorsement to a new holding or servicing Mortgagee via FHAC.

9 **i. Late IMIP Payments**

10 **(A) 5-20 Days Late**

11 A one-time Late Charge of 4 percent is assessed on an IMIP payment received more
12 than 15 Days after the HECM closing. The Mortgagee must pay the Late Charge
13 before FHA will endorse the HECM for insurance.

14 The Mortgagee must not add the amount of the Late Charge to the Borrower's
15 outstanding loan balance.

16 **(B) More than 20 Days Late**

17 If the IMIP is paid more than 20 Days after HECM closing, the Mortgagee will be
18 assessed the Late Charge plus interest. The interest rate is determined in accordance
19 with the requirements set forth in the U.S. Department of the Treasury's Financial
20 Manual in effect when the initial payment is received. The Mortgagee must pay both
21 charges before FHA will endorse the HECM for insurance.

22 The Mortgagee must not add the amount of the Late Charge and interest to the
23 Borrower's outstanding loan balance.

24 The Mortgagee may submit a request to appeal a paid Late Charge or interest
25 payment. For specific information on how to submit an appeal, see the [HERMIT User](#)
26 [Guide](#).

27 **(C) Refund of IMIP**

28 The Mortgagee must submit a request for an IMIP refund using HERMIT, stating the
29 amount of refund requested, the reason for the request, and to whom the refund is to
30 be paid. See the [HERMIT User Guide](#) for refund instructions.

31 **ii. Assembly of Case Binder**

32 The Mortgagee must prepare and submit a uniform case binder via FHA Catalyst or mail
33 the binder to the Jurisdictional HOC.

II. Origination through Post-Closing/Endorsement
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(A)HECM Case Binder Requirements

The Mortgagee must ensure that all case binders are complete, meet FHA specifications, and contain all required documents arranged in the correct stacking order.

(B)HECM Case Binder Format

The HECM case binder must be color coded as follows:

- Manila – Cases submitted for Mortgagees with HECM unconditional DE approval

The Mortgagee must complete the front of the binder, and write the case number on the side and bottom tabs of the binder.

Cases submitted through FHA Catalyst: Case Binder Module do not require a color-coded binder.

(C)HECM Case Binder Stacking Order

The Mortgagee must ensure that all required documents, as applicable, are arranged in the stacking order chart below with the Left Side appearing first.

All appraisals must be submitted through FHA’s legacy EAD portal or FHA Catalyst: EAD Module prior to endorsement. Complete instructions and data delivery format requirements for each appraisal form are found in the [Appraisal Report and Data Delivery Guide](#).

HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
Left Side	
Appraisal and Related Documents	
Designation of Assignment Insurance Option	
<i>Conditional Commitment Direct Endorsement Statement of Appraised Value</i>	HUD-92800.5B
Appraisal Report, including all attachments and endorsements (<i>Uniform Residential Appraisal Report, Individual Condominium Unit Appraisal Report, Manufactured Homes Appraisal Report, or Small Residential Income Property Appraisal Report</i>) (<i>Not required for appraisals submitted through the EAD</i>)	Fannie Mae Form 1004 Fannie Mae Form 1073 Fannie Mae Form 1004C Fannie Mae Form 1025
Compliance Inspection Report or the Appraisal Update and/or Completion Report (Part B) Note: This form is used in conjunction with the Repair Rider and certifies that required repairs have been satisfactorily completed.	HUD-92051 Fannie Mae Form 1004D

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HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
Repair Cost Estimate, if applicable Note: The cost estimate is used in conjunction with the Repair Rider and establishment of the Repair Set-Aside.	
Appraisal Update and/or Completion Report (Part A) <i>(Not required for appraisals submitted through the EAD)</i>	Fannie Mae Form 1004D
Life of Loan Flood Certification	
Borrower's Contract with Respect to Hotel and Transient Use of Property (required on 2-, 3-, or 4-unit Properties)	HUD-92561
Evidence of Flood Insurance	
Evidence of Hazard Insurance	
Title Insurance Commitment or other acceptable evidence of title insurance (in an amount not less than the MCA)	
Borrower certification stating no child under six years of age resides or will reside in the home (for Properties built before 1978 with lead-based paint hazards)	
Exhibits for New Construction	
Builder's Certification of Plans, Specifications, and Site	HUD-92541
Warranty of Completion of Construction	HUD-92544
One of the following: <ul style="list-style-type: none"> • Certificate of Occupancy, or equivalent; or • final inspection 	
Local Health Authority Approval for Individual Water and Sewer Systems	
Subterranean Termite Protection Builder's Guarantee	HUD-NPMA-99A
New Construction Subterranean Termite Service Record	HUD-NPMA-99B
LOMR, LOMA, or FEMA NFIP Elevation Certificate	FEMA Form 086-0-33
Manufactured Housing	
Engineer's Certification for Manufactured Housing Foundation	
LOMR, LOMA, or FEMA NFIP Elevation Certificate	FEMA Form 086-0-33
Condominiums	
Certification for Individual Unit Financing	HUD-9991
HO-6 (Walls-In) Certificate of Insurance or Insurance Policy	
Condominium Rider, if applicable	
Specialized Eligibility Documents	
Presidentially-Declared Major Disaster Area Initial and/or Final Damage Inspection Report	
Presidentially-Declared Major Disaster Area Interior and Exterior Photographs	

II. Origination through Post-Closing/Endorsement
B. Title II Insured Housing Programs Home Equity Conversion Mortgages
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HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
Presidentially-Declared Major Disaster Area Repair Escrow Statement, if applicable	
HECM for Purchase Transactions	
Purchase Contract	
Amendatory Clause	
Real Estate Certification	
Other contract addendums	
Chain of Title and Evidence of Good and Marketable Title	
Right Side	
Underwriting Documentation	
Request for Late Endorsement and Certification stating the HECM is in good standing and Property Charges are current, if applicable.	
Housing Counseling Certificate(s) (received from a HUD-approved counseling agency and signed by the Borrower and counselor)	HUD-92901
HECM Financial Assessment Worksheet or equivalent, signed by the underwriter, and any supporting documentation relevant to the underwriting decision	
Borrower and Non-Borrowing Spouse Certifications	
Non-Borrowing Spouse and Non-Borrowing Owner Acknowledgment and Certification	
Evidence of Marital Status Note: This may include marriage certificate.	
First (1 st) Note	
First (1 st) Security Instrument (Mortgage or Deed of Trust) and all applicable riders	
Second (2 nd) Note (not required for fixed rate) (Original mailed directly to HUD's Servicing Contractor)	
HUD-1 Settlement Statement and HUD-1 Addendum with Closing Certifications	
Most recent payoff demand for mortgage debt paid off using HECM proceeds	
Borrower authorization to apply unused escrow funds	
Notice to Borrower	
Loan Agreement and the following related exhibits: <ul style="list-style-type: none"> • schedule of closing costs and liens; • payment plan; and • Repair Rider, if applicable. 	

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HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
Initial and Final Residential Loan Application for Reverse Mortgages (RLARM)	Fannie Mae Form 1009
Initial and Final HUD Addendum to Uniform Residential Loan Application (all pages)	HUD-92900-A
Documentation supporting compliance with seasoning requirements for existing non-HECM liens	
Documentation supporting payoff of HELOC using HECM proceeds	
Legal documentation evidencing release of the Borrower's financial obligation to satisfy the existing HECM	
Borrower Authorization for Verification	
Borrower Authorization for Use of Information Protected under the Privacy Act	
Cited Extenuating Circumstances and/or Compensating Factors	
Mortgagee's decision to require a Fully Funded or Partially Funded LESA	
Calculation of the Projected Life Expectancy Property Charges	
Evidence of the calculation of the amount of the LESA	
Evidence of CAIVRS authorization code and GSA/LDP check	
Good Faith Estimate, including initial and revised GFEs, if applicable	
Evidence of calculations for: <ul style="list-style-type: none"> • Principal Limit; and • monthly payment or line of credit. A screen print is acceptable.	
Power of Attorney	
Court order appointing a conservator or guardian	
Mortgage Riders & Allonges	
Subordinate Lien Agreement	
HECM-to-HECM Refinance Documentation	
Home Equity Conversion Mortgage (HECM) Anti-Churning Disclosure (original form is required)	HUD-92901
Payoff Statement(s) for all liens to be satisfied with mortgage proceeds	
All supporting calculations for blocks 1 and 2 on the Anti-Churning Disclosure	
Borrower Identification Documentation	
Evidence of the Borrower's age and Eligible NBS's age, if applicable	

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HECM REQUIRED DOCUMENTS FOR ENDORSEMENT	
Evidence of the Borrower’s SSN and Eligible NBS’s SSN, if applicable	
Credit and Capacity Documentation	
Credit report(s)	
Evidence of CAIVRS authorization code and GSA/LDP check	
Verification of Mortgage or rent	
Verification of Property Charges	
Tax deferral waiver or exemption	
Credit-related documentation and explanations	
Source of Funds Verification	
Verification of non-gift source of funds	
Verification of Gift source of funds	
Income and Employment Documentation	
Verification of Income	
Verification of Assets	
Residual Income Analysis Worksheet	
HECM for Purchase Documentation	
Evidence that Borrower’s recent debts were not borrowed to meet the cash investment requirement	

1 **iii. Case Binder Submission – Direct Endorsement**

2 The case binder must be received by the Jurisdictional HOC no later than 60 Days after
3 the Disbursement Date.

4 **(A) Late Submission**

5 If the case binder is submitted more than 60 Days after the Disbursement Date, the
6 Mortgagee must submit a late endorsement request, certifying that:

- 7 • at the time of certification, all payments to the Borrowers have been made in
8 accordance with time frames specified by the payment option;
- 9 • the MIP, Late Charge, and interest due have been remitted;
- 10 • the Borrower is current in paying their Property Charges, i.e., taxes, Ground
11 Rent, Flood and Hazard Insurance premiums, and special assessments; and
- 12 • the Mortgagee or its agent did not provide funds to bring and/or keep the
13 Property Charges current or to bring about the appearance that the Borrower
14 has complied with the obligations of the HECM.

15 FHA will not insure a HECM that does not comply with FHA requirements when
16 submitted for endorsement.

17 Each late endorsement request must:

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- list the FHA case number;
- list the Borrower’s name;
- be dated and signed by the Mortgagee’s representative; and
- be printed on company letterhead with the Mortgagee’s address and telephone number.

(B) Assignee Mortgagee

The assignee Mortgagee of a HECM may submit the HECM for endorsement in its name or the name of the originating Mortgagee. The assignee must also notify the Jurisdictional HOC of the assignment, and verify that the originating Mortgagee completed all certifications.

The Purchasing Mortgagee may pay any required IMIP, Late Charge, and interest.

(C) After Receipt of a Notice of Return

Notice of Return (NOR) refers to a notification to the Mortgagee specifying the reason a Mortgage is not currently eligible for endorsement.

If the Jurisdictional HOC issues a NOR, the Mortgagee may request reconsideration for insurance endorsement. All requests for reconsideration must be received by the Jurisdictional HOC within the 60-Day endorsement submission period or within 30 Days of the issuance of the NOR, whichever is longer. If the request for reconsideration is submitted after this time period, the Mortgagee must follow the guidelines for late submission.

Mortgagees must re-submit the original case binder with any request for reconsideration.

iv. Ineligible for Endorsement

(A) Notice of Return

If the HECM is ineligible for insurance endorsement, FHAC issues an electronic NOR, which states the reasons for non-endorsement and any corrective actions that the Mortgagee must take.

If the HECM is permanently rejected for insurance endorsement, the Mortgagee must notify the Borrower that they do not have an FHA-insured HECM and of the circumstances that made the HECM ineligible for FHA insurance.

(B) Additional Requirements for Permanently Rejected HECMs

The Mortgagee must request a cancelation of the case number from the Jurisdictional HOC to obtain a refund of MIP paid by or on behalf of the Borrower.

1 **v. Mortgagee with Conditional Direct Endorsement Approval (Test Case)**

2 For Mortgagees who receive a HECM DE Program Test Case phase approval letter from
3 HUD’s HOC must follow the Test Case Phase Case Binder Submission process (see
4 [Handbook 4000.1](#), section I.A.5.a.iii(A)(3)(a), Case Binder Submission):

- 5 • all required certifications are executed;
- 6 • a complete case file post-closing is submitted that includes all required
7 origination, financial assessment, and closing documents in the order specified in
8 the HECM Case Binder Documents Requirements Checklist that is provided to
9 the Mortgagee during the Entrance Conference; and
- 10 • the documents are placed in a blue folder with a completed front cover, the FHA
11 case number written on the side and bottom tab of the folder, and “TEST CASE”
12 written in large letters on the front of the folder.

13 **e. Endorsement and Post-Endorsement**

14 **i. Endorsement**

15 Upon successful completion of a pre-endorsement review by FHA, an electronic
16 Mortgage Insurance Certificate (MIC) will be issued.

17 The HECM becomes insured on the date the MIC is issued.

18 **ii. Post-Endorsement**

19 **(A) Confirming Status of the Mortgage Insurance Certificate**

20 The Mortgagee can confirm the endorsement status of a HECM using [FHAC](#) or the
21 FHA Connection Business to Government (FHAC-B2G) application.

22 **(B) Obtaining the Mortgage Insurance Certificate**

23 When requesting the MIC, the Mortgagee must specify whether it is to be prepared in
24 the name of the originator (principal) or authorized agent, as it appears in HUD
25 systems.

26 The MIC will be issued electronically. The Mortgagee can download and print copies
27 of the MIC as needed from FHAC.

28 **(C) Corrections to the Mortgage Insurance Certificate**

29 To obtain a correction to the MIC, the Mortgagee must submit the [MIC Correction](#)
30 [Request Template](#) to the FHA Resource Center. This form may be used to correct the
31 property address, Borrower name, ADP Code, interest rate, SSN, FHA case number,
32 MCA, Principal Limit amount or other information contained in the MIC.

1 **(D) Corrections to Original Instruments**

2 The Mortgagee must follow applicable local law when making corrections to the
3 original instruments.

4 If new instruments are executed as required by local law, the Mortgagee must submit
5 the new instruments prior to insurance endorsement.

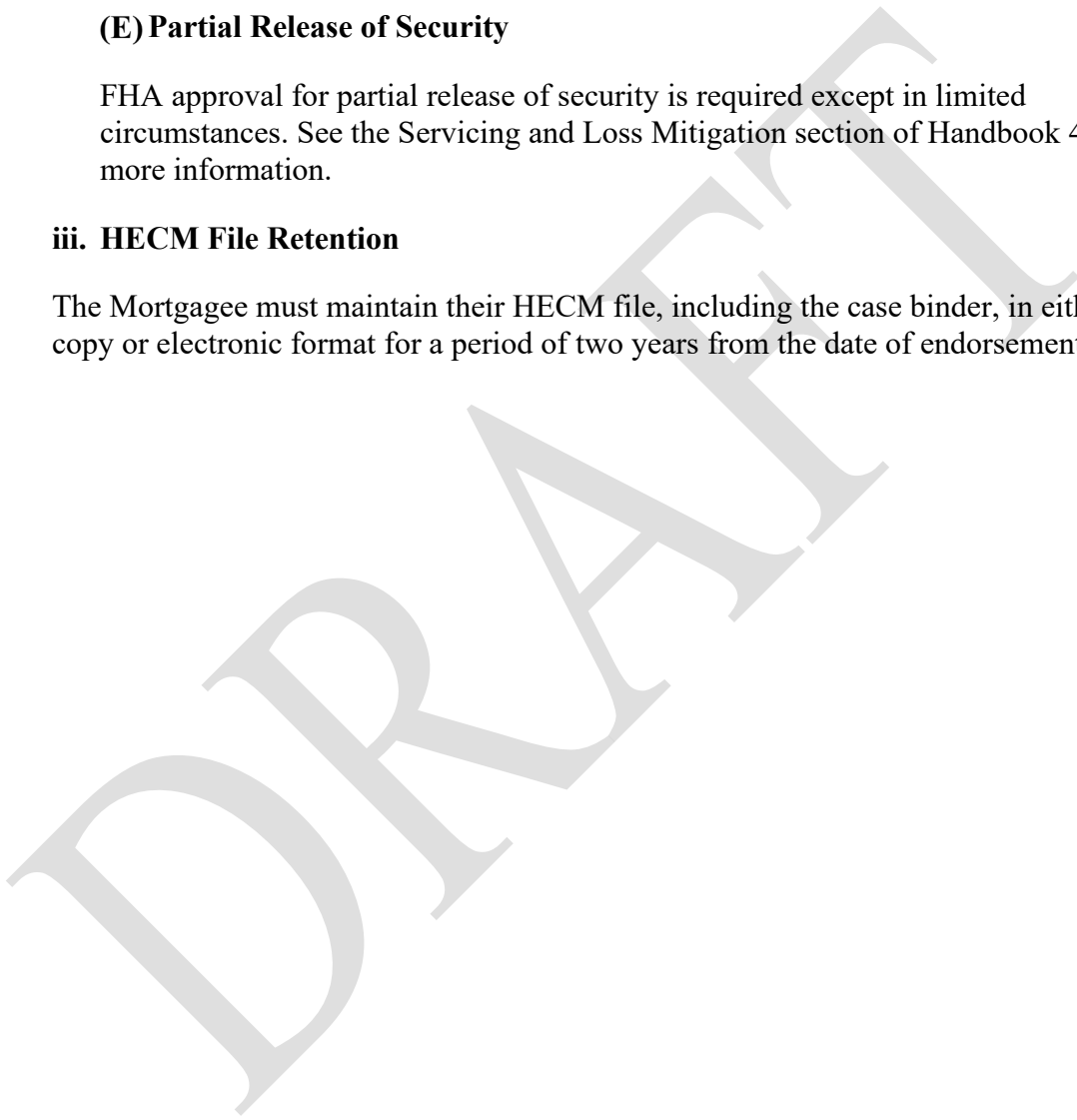
6 **(E) Partial Release of Security**

7 FHA approval for partial release of security is required except in limited
8 circumstances. See the Servicing and Loss Mitigation section of Handbook 4000.1 for
9 more information.

10 **iii. HECM File Retention**

11 The Mortgagee must maintain their HECM file, including the case binder, in either hard
12 copy or electronic format for a period of two years from the date of endorsement.

13



1 **8. Programs and Products**

2 **a. HECM For Purchase**

3 The HECM for Purchase program was designed to allow Borrowers to finance a new
4 Principal Residence and obtain a HECM within a single transaction. Title to the Property
5 must be transferred to the Borrower and the first and, if applicable, second liens are the only
6 liens against the Property at the time of closing.

7 HECMs to be insured under the HECM for Purchase program must be processed and
8 underwritten in accordance with the requirements in Origination Through Post-
9 Closing/Endorsement, except where noted otherwise in this section.

10 **i. Definition**

11 HECM for Purchase refers to a transaction where the Borrower uses the HECM to
12 finance the purchase of an existing one- to four-unit residence where the Borrower will
13 occupy one unit as their Principal Residence.

14 Existing Construction refers to a Property that has been 100 percent complete for over
15 one year or has been completed for less than one year and was previously occupied.

16 New Construction refers to Proposed Construction, Properties Under Construction, and
17 Properties Existing Less than One Year as defined below:

- 18 • Proposed Construction refers to a Property where no concrete or permanent
19 material has been placed. Digging of footing is not considered permanent.
- 20 • Under Construction refers to the period from the first placement of permanent
21 material to 100 percent completion with no Certificate of Occupancy (CO) or
22 equivalent.
- 23 • Existing Less than One Year refers to a Property that is 100 percent complete and
24 has been completed less than one year from the date of the issuance of the CO or
25 equivalent. The Property must have never been occupied.

26 **ii. Initial Application Processing**

27 The Mortgagee may take initial application either before or after the completion of
28 HECM counseling.

29 **iii. Principal Residence Requirements**

30 HECM Borrowers may have only one Principal Residence at any one time. Current
31 HECM Borrowers that plan to sell their existing residence and use the HECM for
32 Purchase program to obtain a new Principal Residence must pay off the existing HECM
33 before the HECM for Purchase transaction can be insured.

1 **iv. Initial Mortgage Insurance Premium Amount**

2 Initial Mortgage Insurance Premium (IMIP) must be financed or paid in cash by the
3 Borrower. The Borrower may pay a portion or the full amount of IMIP. Any amount not
4 paid in cash must be financed. Any IMIP amounts paid in cash are added to the total cash
5 requirements due at closing.

6 **v. Maximum Claim Amount**

7 **(A) Definition**

8 The Maximum Claim Amount (MCA) is the lesser of the:

- 9 • appraised value as determined by the [Collateral Risk Assessment](#);
- 10 • national mortgage limit; or
- 11 • sales contract price.

12 **(B) Standard**

13 The Mortgagee must determine the MCA at origination. When the collateral risk
14 assessment determines that a second appraisal is required, the Mortgagee must use the
15 lower of the two appraised values. The IMIP must not be taken into account in the
16 calculation of the MCA. Closing costs must not be taken into account in determining
17 the appraised value.

18 **vi. Property Eligibility and Acceptability Criteria**

19 **(A) Types of Eligible Properties**

20 The Borrower may finance the purchase of a one- to four-unit residence that will be
21 used as their Principal Residence. The Property may be Existing Construction or New
22 Construction. The following property types are eligible for HECM financing:

- 23 • Site Built Housing (one- to four-units)
- 24 • Condominium units in Approved Projects of Legal Phases
- 25 • Manufactured Housing

26 Properties previously acquired through a contract for deed, land contract, or other
27 similar arrangements must be treated as a purchase transaction when HECM funds
28 will be used to satisfy outstanding payment obligations.

29 For Condominium Units seeking Single-Unit Approval, see [Property Eligibility](#) in
30 Single-Unit Approval (see this section in the Origination through Post-
31 Closing/Endorsement section of Handbook 4000.1).

32 FHA treats the sale of an occupied Property that has been completed less than one
33 year from the issuance of the CO or equivalent as an Existing Construction Property.

1 **(B) Construction and Inspection Requirements for New Construction HECM**
2 **Properties**

3 Mortgagees must ensure New Construction HECM Properties are inspected to ensure
4 compliance with FHA’s MPS and MPR. The construction status at the time of
5 appraisal will determine the inspections that must be completed.

6 **(1) Site Built Housing and Condominium Units**

7 **(a) Proposed Construction**

8 For Properties in the Proposed Construction status at time of appraisal, the
9 Mortgagee must obtain one of the following prior to closing and provide the
10 applicable documentation in the case binder:

- 11 • copies of the building permit (or equivalent) and CO (or equivalent);
- 12 or
- 13 • three inspections (footing, framing and final) performed by the local
14 authority with jurisdiction over the Property or an ICC certified RCI or
15 CI (for Modular Housing, footing and final only); or
- 16 • in the absence of such ICC certified RCI or CI, the Mortgagee may
17 obtain three inspections (footing, framing and final) performed by a
18 disinterested third party, who is a registered architect or a structural
19 engineer and has met the licensing and bonding requirements of the
20 state in which the Property is located.

21 **(b) Under Construction**

22 For Properties in the Under Construction status at time of appraisal, the
23 Mortgagee must obtain one of the following prior to closing and provide the
24 applicable documentation in the case binder:

- 25 • copies of the building permit (or equivalent) and CO (or equivalent);
- 26 or
- 27 • a final inspection issued by the local authority with jurisdiction over
28 the Property or by an ICC certified RCI or CI; or
- 29 • in the absence of such ICC certified RCI or CI, the Mortgagee may
30 obtain a final inspection performed by a disinterested third party, who
31 is a registered architect or a structural engineer and has met the
32 licensing and bonding requirements of the state in which the Property
33 is located.

34 **(c) Existing Less than One Year**

35 For Properties in the Existing Less than One Year status at time of appraisal,
36 the Mortgagee must obtain one of the following prior to closing and provide
37 the applicable documentation in the case binder:

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- a copy of the CO (or equivalent); or
- a final inspection issued by the local authority with jurisdiction over the Property or by an ICC certified RCI or CI; or
- in the absence of such ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third-party, who is a registered architect or a structural engineer and has met the licensing and bonding requirements of the State in which the property is located.

(2) Manufactured Housing

(a) Proposed Construction

For Properties in the Proposed Construction status at time of appraisal, the Mortgagee must obtain one of the following prior to closing and provide the applicable documentation in the case binder:

- copies of the building permit, (or equivalent) and CO (or equivalent); or
- two inspections (initial and final) performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain two inspections (initial and final) performed by a disinterested third party, who is a registered architect or a structural engineer and has met the licensing and bonding requirements of the state in which the Property is located.

(b) Under Construction

For Properties in the Under Construction status at time of appraisal, the Mortgagee must obtain one of the following prior to closing and provide the applicable documentation in the case binder:

- copies of the building permit, (or equivalent) and CO (or equivalent); or
- a final inspection performed by the local authority with jurisdiction over the Property or an ICC certified RCI or CI; or
- in the absence of a local authority with building code jurisdiction or ICC certified RCI or CI, the Mortgagee may obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer and has met the licensing and bonding requirements of the state in which the Property is located.

1 **(c) Existing Less than One Year**

2 For Properties in the Existing Less than One Year status at time of appraisal,
3 the Mortgagee must obtain one of the following prior to closing and provide
4 the applicable documentation in the case binder:

- 5 • a copy of the CO (or equivalent); or
- 6 • a final inspection performed by the local authority with jurisdiction
7 over the Property or an ICC certified RCI or CI; or
- 8 • in the absence of a local authority with building code jurisdiction or
9 ICC certified RCI or CI, the Mortgagee may obtain a final inspection
10 performed by a disinterested third-party, who is a registered architect
11 or a structural engineer and has met the licensing and bonding
12 requirements of the State in which the property is located.

13 **(3) Required Documentation for New Construction Properties**

14 The Mortgagee must obtain and include the following documents in the case
15 binder:

- 16 • form HUD-92541, *Builder’s Certification of Plans, Specifications, and*
17 *Site*;
- 18 • form HUD-92544, *Warranty of Completion of Construction*;
- 19 • a copy of the CO (or equivalent), if applicable;
- 20 • required inspections, as applicable;
 - 21 ○ inspections performed by ICC certified RCI or CI or a third-party, who
22 is a registered architect or structural engineer must be reported on form
23 HUD-92051, Compliance Inspection Report (CIR) or on an
24 appropriate State sanctioned inspection form;
 - 25 ○ when a third party, who is a registered architect or structural engineer,
26 is relied upon for required inspections due to the absence of ICC
27 certified RCI or CI, include certification from such inspector that they
28 are licensed and bonded under applicable state and local laws;
- 29 • Wood Infestation Report, unless the Property is located in an area of no to
30 slight infestation as indicated on HUD’s “Termite Treatment Exception
31 Areas” list:
 - 32 ○ form HUD-NPMA-99-A, *Subterranean Termite Protection Builder’s*
33 *Guarantee*. If the building is constructed with steel, masonry or
34 concrete building components with only minor interior wood trim and
35 roof sheathing, no treatment is needed. The Mortgagee must ensure
36 that the builder notes on the form that the construction is masonry,
37 steel, or concrete; and
 - 38 ○ form HUD-NPMA-99-B, *New Construction Subterranean Termite*
39 *Service Record*, is required when the Property is treated one of the
40 following: Termite Bait System, Field Applied Wood Treatment, soil
41 chemical termiticide, or Physical Barrier System is installed, as
42 reflected on the HUD-NPMA-99-A. The Mortgagee must reject the

- 1 use of post construction soil treatment when the termiticide is applied
2 only around the perimeter of the foundation; and
3 • local Health Authority well water analysis and/or septic report, where
4 required by the local jurisdictional authority.
5

6 **(C) Documents to be Provided to Appraiser at Assignment**

7 The Mortgagee must provide the Appraiser with a fully executed form [HUD-92541](#),
8 signed and dated no more than 30 Days prior to the date the appraisal was ordered.

9 For Properties 90 percent completed or less, the Mortgagee must provide a copy of
10 the floor plan, plot plan, and any other exhibits necessary to allow the Appraiser to
11 determine the size and level of finish of the house they are appraising.

12 For Properties greater than 90 percent but less than 100 percent completed, the
13 Mortgagee must provide the Appraiser with a list of components to be installed or
14 completed after the date of inspection.

15 **(D) Property Considerations**

16 New Construction must meet HUD's Minimum Property Requirements (MPR) and
17 Minimum Property Standards (MPS).

18 **(E) Mortgage Review of Appraisal**

19 **(1) Site Considerations**

20 **(a) Environmental**

21 The Mortgagee must require corrective work to mitigate any condition that
22 arises during construction that may affect the health and safety of the
23 occupants, the Property's ability to serve as collateral, or the structural
24 soundness of the improvements.

25 **(b) Operating Oil or Gas Wells**

26 If a New Construction dwelling is located within 75 feet of an operating oil or
27 gas well, the Mortgagee must reject the Property unless mitigation measures
28 are completed.

29 **(c) Slush Pits**

30 If a Property is Proposed Construction near an active or abandoned Slush Pit,
31 the Appraiser must require a survey to locate the pit. The Mortgagee is to
32 assess any impact on the subject Property.

1 **(d) Special Airport Hazards**

2 If a New Construction Property is located within Runway Clear Zones (also
3 known as Runway Protection Zones) at civil airports or within Clear Zones at
4 military airfields, the Mortgagee must reject the Property for insurance.

5 Properties located in Accident Potential Zone 1 (APZ 1) at military airfields
6 may be eligible for FHA mortgage insurance provided that the Mortgagee
7 determines that the Property complies with Department of Defense guidelines.

8 **(e) Flood Hazard Areas**

9 If any portion of the property improvements (the dwelling and related
10 Structures/equipment essential to the value of the Property and subject to
11 flood damage) is located within a Special Flood Hazard Area (SFHA), the
12 Mortgagee must reject the Property, unless:

- 13 • a final Letter of Map Amendment (LOMA) or final Letter of Map
14 Revision (LOMR) that removes the Property from the SFHA is
15 obtained from the Federal Emergency Management Agency (FEMA);
16 or
- 17 • the Mortgagee obtains a FEMA National Flood Insurance Program
18 (NFIP) Elevation Certificate ([FEMA Form 086-0-33](#)), that documents
19 that the lowest floor (including the basement) of the residential
20 building and all related improvements/equipment essential to the value
21 of the Property, is built at or above the 100-year flood elevation in
22 compliance with the NFIP criteria. The Mortgagee must ensure that
23 the flood elevation certificate is prepared by a licensed engineer or
24 surveyor and completed based on finished construction.

25 The Mortgagee must include the LOMA, LOMR, or flood elevation certificate
26 with the case when it is submitted for endorsement.

27 The Mortgagee must ensure that insurance under the NFIP is obtained when a
28 flood elevation certificate documents that the Property remains located within
29 an SFHA.

30 **(f) Individual Water Supply Systems (Wells)**

31 The Mortgagee must ensure that new wells are drilled and are no less than 20
32 feet deep and cased. Casing should be steel or other casing material that is
33 durable, leak-proof, and acceptable to either the local health authority or the
34 trade or profession licensed to drill and repair wells in the local jurisdiction.

35 A well located within the foundation walls of New Construction is not
36 acceptable except in arctic or sub-arctic regions.

(i) Requirements for Well Water Testing

A well water test is required for all newly constructed Properties.

All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Borrower/owner or other Interested Party collect and/or transport the sample.

The following tables provide the minimum distance required between wells and sources of pollution:

Water Well Location Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(3)(iv)*	
1	Property line/10 feet
2	Septic tank/50 feet
3	Absorption field/100 feet
4	Seepage pit or cesspool/100 feet
5	Sewer lines with permanent water tight joints/10 feet
6	Other sewer lines/50 feet
7	Chemically poisoned soil/25 feet (reduced to 15 feet where ground surface is protected by impervious strata of clay, hardpan or rock)
8	Dry well/50 feet
9	Other – refer to local health authority minimums
* distance requirements of local authority prevail if greater than stated above	

The following provides the minimum standards for Individual Water Supply Systems (wells):

Individual Water System Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1) and (2)	
1	Lead-free piping
2	If no local chemical and bacteriological water standards, state standards apply
3	Connection of public water whenever feasible
4	Wells must deliver water flow of five gallons per minute over at least a four-hour period

1 **(ii) Required Documentation**

2 The Mortgagee must submit a valid water test from the local health
3 authority or qualified lab.

4 **(g) Shared Well**

5 A Shared Well is permitted only if the Mortgagee obtains evidence that:

- 6 • it is not feasible to serve the housing by an acceptable public or
7 Community Water System; and
- 8 • the housing is located in an area other than in an area where local
9 officials have certified that installation of public or adequate
10 Community Water Systems and sewer systems are economically
11 feasible.

12 **(F) Sales Comparison Approach: Comparable Selection**

13 For Properties in new subdivisions, the selected comparable sales must include at
14 least one sale outside the subdivision or project and at least one sale from within the
15 subdivision or project.

16 **(G) Seller Must Be Owner of Record**

17 **(1) Standard**

18 To be eligible for a HECM insured by FHA, a Property must be purchased from
19 the owner of record. The transaction may not involve any sale or assignment of
20 the sales contract.

21 **(2) Required Documentation**

22 The Mortgagee must obtain documentation verifying that the seller is the owner
23 of record.

24 Such documentation may include, but is not limited to:

- 25 • a property sales history report;
- 26 • a copy of the recorded deed from the seller; or
- 27 • other documentation, such as a copy of a property tax bill, title
28 commitment, or binder demonstrating the seller's ownership of the
29 Property and the date it was acquired.

1 **(H)Restrictions on Property Flipping**

2 **(1) Definition**

3 Property Flipping refers to the purchase and subsequent resale of a Property in a
4 short period of time.

5 **(2) Standard**

6 **(a) Time Restriction on Transfers of Title**

7 The eligibility of a Property for a HECM insured by FHA is determined by the
8 time that has elapsed between the date the seller has acquired title to the
9 Property and the date of execution of the sales contract that will result in the
10 FHA-insured HECM.

11 FHA defines the seller's date of acquisition as the date the seller acquired
12 legal ownership of that Property. FHA defines the resale date as the date of
13 execution of the sales contract by all parties intending to finance the Property
14 with an FHA-insured HECM.

15 **(b) Restriction on Resales Occurring 90 Days or Fewer After Acquisition**

16 A Property that is being resold 90 Days or fewer following the seller's date of
17 acquisition is not eligible for an FHA-insured HECM.

18 **(c) Resales Occurring Between 91 Days and 180 Days After Acquisition**

19 A Property that is resold between 91 Days and 180 Days after acquisition is
20 subject to FHA's collateral risk assessment. If a second appraisal is required by
21 FHA's collateral risk assessment, the Mortgagee must:

- 22 • order the second appraisal from an Appraiser not associated with the
23 same appraisal company as the first appraisal; and
- 24 • if the second appraisal supports a lower value, the lower value must be
25 used to calculate the MCA.

26 The cost of the second appraisal may be financed as part of the closing costs.

27 **(d) Exceptions to Time Restrictions on Resale**

28 Exceptions to the 90-Day resale restriction are:

- 29 • Properties acquired by an employer or relocation agency in connection
30 with the relocation of an employee;
- 31 • resales by HUD under its REO program;
- 32 • sales by other U.S. government agencies of Single Family Properties
33 pursuant to programs operated by these agencies;

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- sales of Properties by nonprofits approved to purchase HUD-owned Single Family Properties at a discount with resale restrictions;
- sales of Properties that are acquired by the seller by inheritance;
- sales of Properties by state and federally-chartered financial institutions and Government-Sponsored Enterprises (GSEs);
- sales of Properties by local and state government agencies; and
- sales of Properties within Presidentially-Declared Major Disaster Areas (PDMDA), only upon issuance of a notice of an exception from HUD.

The restrictions listed above and those in 24 CFR § 206.52(b) do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.

(3) Required Documentation

The Mortgagee must obtain a 12-month chain of title documenting compliance with time restrictions on resales.

vii. Completion of Construction

Regardless of the inspection process used, the Mortgagee must certify on form [HUD-92800.5B](#), *Conditional Commitment Direct Endorsement Statement of Appraised Value*, that the Property is 100 percent complete and meets HUD’s MPR and MPS.

viii. Minimum Required Repairs

For HECM for Purchase transactions, the seller must complete all repairs necessary to:

- maintain the safety, security, and soundness of the Property;
- preserve the continued marketability of the Property; and
- protect the health and safety of the occupants.

The Appraiser must complete the appraisal as “Subject To” the completion of all required repairs.

ix. Sales Contract and Supporting Documentation

(A) Standard

The Mortgagee must not originate an insured HECM for the purchase of a Property if any provision of the sales contract violates FHA requirements.

The Mortgagee must ensure that (1) all purchasers listed on the sales contract are Borrowers, and (2) only those Borrowers may sign the sales contract. The Mortgagee may also list a Non-Borrowing Spouse (NBS) on the sales contract but the NBS is not required to sign the sales contract.

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1 An addendum or modification may be used to remove or correct any provisions of the
2 sales contract that do not conform to these requirements.

3 **(1) Amendatory Clause**

4 If the Borrower does not receive form [HUD-92800.5B](#), *Conditional Commitment*
5 *Direct Endorsement Statement of Appraised Value*, before signing the sales
6 contract, the sales contract must include or be amended before closing to include
7 an amendatory clause that contains the following language:

8 “It is expressly agreed that notwithstanding any other provisions of this contract,
9 the purchaser shall not be obligated to complete the purchase of the property
10 described herein or to incur any penalty by forfeiture of earnest money deposits or
11 otherwise, unless the purchaser has been given, in accordance with HUD/FHA or
12 VA requirements, a written statement by the Federal Housing Commissioner,
13 Department of Veterans Affairs, or a Direct Endorsement lender setting forth the
14 appraised value of the property of not less than \$ _____*. The purchaser
15 shall have the privilege and option of proceeding with consummation of the
16 contract without regard to the amount of the appraised valuation. The appraised
17 valuation is arrived at to determine the maximum mortgage the Department of
18 Housing and Urban Development will insure. HUD does not warrant the value or
19 condition of the property. The purchaser should satisfy himself/herself that the
20 price and condition of the property are acceptable.”

21 Mortgagees must ensure the actual dollar amount of the sales price stated in the
22 contract has been inserted in the amendatory clause. Increases to the sales price
23 require a revised amendatory clause.

24 An amendatory clause is not required in connection with:

- 25 • HUD Real Estate Owned (REO) sales; or
- 26 • sales in which the seller is:
 - 27 ○ Fannie Mae;
 - 28 ○ Freddie Mac;
 - 29 ○ U.S. Department of Veterans Affairs (VA);
 - 30 ○ United States Department of Agriculture (USDA) Rural Housing
 - 31 Services;
 - 32 ○ other federal, state, and local government agencies;
 - 33 ○ a Mortgagee disposing of REO assets; or
 - 34 ○ a seller at a foreclosure sale.

35 **(2) Real Estate Certification**

36 The Borrower, seller, and real estate agent or broker involved in the sales
37 transaction must certify, to the best of their knowledge and belief, that (1) the
38 terms and conditions of the sales contract are true and (2) any other agreement

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1 entered into by any parties in connection with the real estate transaction is part of,
2 or attached to, the sales agreement.

3 A separate certification is not needed if the sales contract contains a statement that
4 (1) there are no other agreements between parties and the terms constitute the
5 entire agreement between the parties, and (2) all parties are signatories to the sales
6 contract submitted at the time the financial assessment is performed.

7 **(B) Required Documentation**

8 The Mortgagee must obtain all signed copies of sales contract(s), including a
9 complete copy of the final sales contract with any modifications or revisions agreed
10 upon by the Borrower and seller.

11 The documentation must also include the amendatory clause executed by all parties,
12 Real Estate Certification executed by all parties, and all other contract addenda.

13 **(C) Ordering a Second Appraisal**

14 The Mortgagee is prohibited from ordering an additional appraisal to achieve an increase
15 in value for the Property and/or the elimination or reduction of deficiencies and/or repairs
16 required.

17 The Mortgagee may order a second appraisal for transactions that are in accordance
18 with requirements on [Property Flipping](#).

19 **x. HUD Required Disclosures**

20 **(A) Form HUD-92900-B, Important Notice to Homebuyer**

21 The Mortgagee must provide the Borrower with a copy of form HUD-92900-B,
22 *Important Notice to Homebuyers*, signed by the Borrower to keep for the Borrower's
23 records when the Borrower applies for the HECM. The Mortgagee must retain the
24 original form HUD-92900-B signed by the Borrower.

25 **(B) Lead-Based Paint**

26 If the Property was built before 1978, the seller must disclose any information known
27 about lead-based paint and lead-based paint hazards before selling the house, in
28 accordance with the [HUD-EPA Lead Disclosure Rule \(24 CFR 35, subpart A\)](#), and the
29 identical [40 CFR 745, subpart F](#)). For such Properties, the Mortgagee must ensure
30 that:

- 31 • the Borrower has been provided the EPA-approved information pamphlet on
32 identifying and controlling lead-based paint hazards ("[Protect Your Family](#)
33 [From Lead In Your Home](#)");

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- the Borrower was given a 10-Day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards, or the Borrower waived the opportunity;
- the sales contract contains an attachment in the language of the contract (e.g., English, Spanish), signed and dated by both the seller and purchaser:
 - containing a lead warning statement as set forth in 24 CFR § 35.92(a)(1);
 - providing the seller’s disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence;
 - listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and
 - affirming that the Borrower received the pamphlet, disclosure, and records or reports above; and
- when any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller’s Lead Disclosure Rule obligations, and the agent is aware of their duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract.

(C) Form HUD-92564-CN, For Your Protection, Get A Home Inspection

Mortgagees are required to provide form [HUD-92564-CN](#), *For Your Protection: Get a Home Inspection*, to prospective homebuyers at initial application.

xi. Underwriting the Property

(A) Required Repairs

Where major property deficiencies threaten the health and safety of the homeowner and/or jeopardize the soundness and security of the Property, all repairs must be completed by the seller prior to closing. A Repair Set-Aside is not permitted.

(B) Chain of Title

The Mortgagee must review the appraisal to determine if the subject Property was sold within 12 months prior to the case number assignment date. If the subject Property was sold within the previous 12 months, the Mortgagee must review evidence of prior ownership and for compliance with [Restrictions on Property Flipping](#).

1 **xii. Performing the Financial Assessment**

2 **(A) Credit History Requirements**

3 **(1) Types of Credit History**

4 If a traditional credit report is available, the Mortgagee must use a traditional
5 credit report.

6 If a traditional credit report is not available, the Mortgagee must develop the
7 Borrower's credit history using the requirements for non-traditional and
8 insufficient credit.

9 **(a) Non-Traditional Credit Requirements**

10 For Borrowers without a credit score, the Mortgagee must either obtain a
11 Non-Traditional Mortgage Credit Report (NTMCR) from a credit reporting
12 company or independently develop the Borrower's credit history using the
13 requirements outlined below.

14 **(b) Non-Traditional Mortgage Credit Report**

15 **(i) Definition**

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

- 20 • a substitute for a Tri-Merged Credit Report (TRMCR) or a
21 Residential Mortgage Credit Report (RMCR); or
- 22 • a supplement to a traditional credit report that has an insufficient
23 number of trade items reported to generate a credit score.

24 **(ii) Standard**

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

- 28 • the existence of the credit providers;
- 29 • that the credit was actually extended to the Borrower; and
- 30 • the creditor has a published address or telephone number.

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

- 34 • creditor's name;

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

(iii) Independent Verification of Non-Traditional Credit

The Mortgagee may independently verify the Borrower's credit references by documenting the existence of the credit provider and that the provider extended credit to the Borrower.

- To verify the existence of each credit provider, the Mortgagee must 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 Borrower; and
 - obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.
- To verify the Borrower's rental payment history, the Mortgagee must obtain a rental reference from the appropriate rental management company, provided the Borrower is not renting from a Family Member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

(iv) Sufficiency of Credit References

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

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

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- 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 to obtain the remaining one or two credit references needed:

- insurance premiums not payroll deducted (for example, medical, auto, life, or 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;
- an automobile lease;
- a personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or
- a documented 12-month history of payment by the Borrower on an account for which the Borrower is an authorized user.

(2) Bankruptcy

(a) Chapter 7

A Chapter 7 bankruptcy (liquidation) does not disqualify a Borrower 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 Borrower 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 Borrower:

- can show that the bankruptcy was caused by Extenuating Circumstances beyond the Borrower’s control; and
- has since exhibited a documented ability to manage their financial affairs in a responsible manner.

1 **(b) Chapter 13**

2 A Chapter 13 bankruptcy does not disqualify a Borrower from consideration
3 for a HECM for Purchase, if at the time of case number assignment, the
4 bankruptcy has been discharged or at least 12 months of the pay-out period
5 under the bankruptcy has elapsed.

6 If the bankruptcy has not been discharged, the Mortgagee must determine that,
7 during the pay-out period, the Borrower’s payment performance has been
8 satisfactory, all required payments have been made on time, and the Borrower
9 has received written permission from the bankruptcy court to enter into the
10 mortgage transaction.

11 The Mortgagee must include the payment amount in the court-approved
12 payment plan in the Borrower’s expenses when calculating Residual Income.

13 **(c) Required Documentation**

14 If the credit report does not verify the discharge date or additional
15 documentation is necessary to determine if any liabilities were discharged in
16 the bankruptcy, the Mortgagee must obtain the bankruptcy and discharge
17 documents.

18 The Mortgagee must also document that the Borrower’s current situation
19 indicates that the events that led to the bankruptcy are not likely to recur.

20 **(B) Other Sources of Effective Income**

21 **Boarder Income**

22 To calculate Effective Income, the Mortgagee must obtain a copy of the executed
23 written agreement documenting the intent of the Boarders to continue boarding with
24 the Borrower.

25 **(C) Asset Requirements**

26 **(1) Earnest Money Deposit**

27 The Mortgagee must verify and document the deposit amount and source of funds
28 if the amount of the earnest money deposit exceeds 1 percent of the sales price or
29 is excessive based on the Borrower’s history of accumulating savings, by
30 obtaining:

- 31 • a copy of the Borrower’s canceled check;
- 32 • certification from the deposit-holder acknowledging receipt of funds;

- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct verification by a Third Party Verification (TPV) vendor, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify assets;
 - the date of the completed verification conforms with FHA requirements in [Maximum Age of HECM Documents](#); and
 - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a Gift, the Mortgagee must verify that the Gift is in compliance with [Standards for Gifts](#).

(2) Monetary Investment

(a) Definition

Monetary Investment refers to the amount Borrowers must provide to satisfy the difference between the Principal Limit and the sale price for the Property, plus any HECM-related fees that are not financed into the HECM, minus the amount of the earnest deposit.

(b) Source Requirements for the Borrower's Monetary Investment

(i) Acceptable Monetary Investment Funding Sources

To satisfy the required monetary investment, Borrowers may use:

- Cash on Hand;
- cash from the sale or liquidation of the Borrower's assets;
- HECM proceeds; and
- other [Acceptable Sources of Funds](#).

A Family Member entitled to the commission may also provide it as a Gift, in compliance with standard gift requirements.

The Borrower may choose to provide a larger investment amount in order to retain a portion of the available HECM proceeds for future draws.

(ii) Unacceptable Monetary Investment Funding Sources

The Borrower may not use the following funding sources to satisfy the required monetary investment:

- Sweat Equity;
- Trade Equity;
- rent credit; or

- cash or its equivalent, in whole or in part, from the following parties before, during, or after loan closing:
 - the seller or 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.

FHA prohibits seller contributions (also known as “seller concessions”), the use of loan discount points, interest rate buy downs, Premium Pricing, closing cost assistance, downpayment assistance, builder incentives, Gifts or Personal Property given by the seller or any other party involved in the transaction. See [Interested Party Contributions](#) for fees that may be paid by the seller.

A Borrower who also serves as the licensed real estate agent on a HECM for Purchase transaction may use the real estate commission to satisfy the required monetary investment.

(iii) Required Documentation

The Mortgagee must document that the Borrower’s monetary investment is from an acceptable monetary investment funding source and there will be no outstanding or unpaid obligations incurred by the Borrower in connection with the HECM for Purchase transaction.

The Mortgagee must verify and document that the Borrower, or Family Member giving the commission as a Gift, is a licensed real estate agent, and is entitled to a Real Estate Commission from the Sale of the Subject Property being purchased.

(3) Interested Party Contributions

(a) Definition

Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third-Party Originators (TPO), or other parties with an interest in the transaction.

(b) Standard

Permissible Interested Party contributions are limited to the following items:

- fees required to be paid by the seller under state or local law;
- fees customarily paid by a seller in the subject property locality; and
- the purchase of the home warranty policy by the seller.

1 **(c) Required Documentation**

2 The HUD-1 Settlement Statement and sales contract must accurately reflect
3 Interested Party contributions. When a legally binding document other than
4 the sales contract is used to document the Interested Party contributions, the
5 Mortgagee must provide a copy of this document to the assigned Appraiser.

6 **xiii. Closing**

7 **(A) HUD-1 Addendum Closing Certifications**

8 The Mortgagee must obtain the final HUD-1 Settlement Statement or similar legal
9 document from the settlement agent. If the seller’s HUD-1 Settlement Statement or
10 similar legal document is provided separately, the Mortgagee must obtain from the
11 Closing Agent a copy of the final disclosure provided to the seller to keep in the case
12 binder.

13 **(B) Seller Certification**

14 The seller must sign the certification to the Addendum to HUD-1 Settlement
15 Statement.

16 **(C) Inspection and Repair Requirements for HECMs Pending Closing in**
17 **Presidentially-Declared Major Disaster Areas**

18 For HECM for Purchase transactions that have not closed, repairs must be completed
19 prior to closing and the cost of repairs is the responsibility of the seller.

20 **(D) Closing Costs and Fees**

21 **(1) Mandatory Obligations**

22 The Mortgagee may use HECM proceeds to satisfy the Borrower’s Mandatory
23 Obligations.

24 Mandatory Obligations include:

- 25 • IMIP;
- 26 • loan origination fee;
- 27 • HECM counseling fee;
- 28 • reasonable and customary amounts, but not more than the amount actually
29 paid by the Mortgagee for any of the following items:
 - 30 ○ recording fees and recording taxes, or other charges incident to the
31 recordation of the insured HECM;
 - 32 ○ credit report;
 - 33 ○ survey, if required by the Mortgagee or the Borrower;
 - 34 ○ title examination;

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- 1 ○ Mortgagee’s title insurance; and
- 2 ○ fees paid to an Appraiser for the initial appraisal of the Property;
- 3 ● delinquent Federal Debt;
- 4 ● fees and charges for real estate purchase contracts, warranties, inspections,
- 5 surveys, and engineer certifications;
- 6 ● the total amount of property tax and Flood and Hazard Insurance charges
- 7 scheduled for payment during the First 12-Month Disbursement Period
- 8 from a Fully Funded LESA. Mortgagees must use the actual insurance
- 9 premium and actual tax amount;
- 10 ● property tax, Flood and Hazard Insurance payments required by the
- 11 Mortgagee to be paid at closing;
- 12 ● the amount of the principal that is advanced towards the purchase price of
- 13 the subject Property;
- 14 ● other charges as authorized by the Secretary; and
- 15 ● for adjustable rate HECMs:
- 16 ○ the total amount of property charge payments scheduled for payment
- 17 through the optional Borrower authorized option during the First 12-
- 18 Month Disbursement Period; and
- 19 ○ the total amount of semiannual Disbursements scheduled to be made
- 20 during the First 12-Month Disbursement Period to the Borrower from
- 21 a Partially Funded LESA.

22 **(2) Property Assessed Clean Energy**

23 The Property Assessed Clean Energy (PACE) obligation must be paid off in full

24 at closing. The Borrower may use HECM proceeds to satisfy the PACE

25 obligation.

26 **(E) Certificate of Occupancy**

27 **(1) Standard**

28 The Mortgagee must obtain a copy of the CO, or its equivalent, if the date of the

29 issuance of the CO or equivalent is less than one year before closing and the

30 Property has never been occupied.

31 Borrowers and Eligible NBS, if applicable, must occupy the Property within 60

32 Days from the date of closing.

33 **(2) Required Documentation**

34 The Mortgagee must obtain a copy of the CO or its equivalent issued by the local

35 jurisdiction, ICC RCI, or CI.

1 **xiv. Post-Closing and Endorsement**

2 **Settlement Statement and Settlement Certification**

3 If the HUD-1 Settlement Statement or similar legal document is provided separately, the
4 Mortgagee must obtain from the Closing Agent a copy of the final statement provided to
5 the seller to keep in the case binder.

6 **b. HECM Refinance**

7 HECMs to be insured under the HECM Refinance program must be processed and
8 underwritten in accordance with the requirements in Origination Through Post-
9 Closing/Endorsement, except where noted otherwise in this section.

10 **i. Definition**

11 HECM-to-HECM Refinance (HECM Refinance) refers to a new HECM where the
12 proceeds will be used to pay off the property indebtedness of the current HECM and any
13 existing eligible lien.

14 Original HECM refers to the first HECM that was endorsed by FHA.

15 Mortgagee Optional Election (MOE) Assignment refers to an assignment option available
16 to Mortgagees for cases where an FHA case number was assigned prior to August 4,
17 2014 and is associated with an Eligible Surviving NBS.

18 **ii. Standard**

19 The Borrower must pay off any [existing non-HECM lien](#) on the subject Property that
20 cannot be subordinated to the first and second HECM liens, and costs associated with the
21 refinance transaction.

22 When the HECM is in a deferred Due and Payable status, due to the death of all
23 Borrowers, and the Eligible Non-Borrowing Spouse (NBS) seeks to obtain a HECM as a
24 Borrower, the transaction cannot be originated as a HECM Refinance, but must be
25 originated as a traditional transaction.

26 **iii. Counseling Requirements**

27 **Waiver of Counseling on HECM Refinances**

28 The Borrower and NBS may elect not to receive counseling in a HECM Refinance if all
29 of the following conditions are met:

- 30 (i) the original HECM was assigned a case number on or after August 4, 2014, and
31 the Borrower and NBS, if applicable, received HECM counseling; or the original
32 HECM was assigned a case number prior to August 4, 2014, and there is no NBS
33 as determined by the MOE Assignment process;

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- 1 (ii) the Borrower has received form HUD-92901, *Home Equity Conversion*
2 *Mortgage (HECM) Anti-Churning Disclosure* (see [HECM Anti-Churning](#)
3 [Disclosure](#));
- 4 (iii) the increase in the Borrower's Principal Limit (block 2 of form HUD-92901)
5 exceeds the total cost of the refinancing by an amount equal to five times the
6 cost of the transaction (block 1 of form HUD-92901); and
- 7 (iv) the time between the date of closing on the original HECM and the
8 application for refinancing does not exceed five years, even if less than five
9 years have passed since a previous refinancing.

10 The five-year period in bullet (iv) above does not restart with each new refinance,
11 even when the Borrower has received HECM counseling since the original HECM.
12 Mortgagees are responsible for obtaining documentation to confirm the date of
13 closing of the original HECM.

14 **iv. Processing of a HECM Refinance**

15 **(A) Churning**

16 **(1) Definition**

17 Churning refers to a practice whereby Mortgagees engage in multiple refinances
18 to generate additional profit from fees and charges. The churned HECMs are not
19 made in the interest of the Borrower and provide no financial benefit to the
20 Borrower.

21 **(2) Standard**

22 The Mortgagee must provide the Borrower with a completed form HUD-92901
23 within three Days of taking initial loan application, disclosing:

- 24 • their best estimate of the total cost of the mortgage transaction;
- 25 • the increase or decrease in the Borrower's Principal Limit; and
- 26 • the amount of any additional HECM funds that will be available to the
27 Borrower as a result of the refinancing.

28 If the Principal Limit of the HECM Refinance is lower than the Borrower's
29 current Principal Limit, the change must be entered as a negative number.

30 **(3) Required Documentation**

31 **HECM Anti-Churning Disclosure**

32 Confirm the original form [HUD-92901](#) is signed and dated by the Borrower.

1 The Settlement Statement or similar legal document must indicate that all existing
2 mortgage liens have been fully satisfied or are subordinate to the first and second
3 HECM liens.

4 **(B) Ordering a Case Number**

5 The Mortgagee must enter the FHA case number of the existing HECM being
6 refinanced. FHAC will not issue a case number if the existing case number is
7 “terminated” or Due and Payable. The Mortgagee must terminate the existing case
8 number in HERMIT after closing and once the outstanding loan balance of the
9 existing HECM is satisfied.

10 **v. Property Eligibility**

11 **Condominium Refinances**

12 HECM Refinance transactions do not require Condominium Project Approval or Single-
13 Unit Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the
14 Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

15 **vi. Allowable Mortgage Parameters**

16 **(A) Reduction of Initial Mortgage Insurance Premium**

17 At least one Borrower from the original HECM must be a Borrower on the HECM
18 Refinance for the transaction to be eligible for reduced Initial Mortgage Insurance
19 Premium (IMIP).

20 **(B) Calculation of Initial Mortgage Insurance Premium**

21 Mortgagees must use the formula below to determine IMIP due (IMIP_{due}) to HUD:

22 (1) $IMIP_{new} = MCA_{new} \times IMIP\ rate_{new}$

23 (2) $IMIP_{old} = MCA_{old} \times IMIP\ rate_{old}$

24 or, if this HECM has previously been refinanced:

25 $IMIP_{old} = MCA_{old} \times IMIP\ rate_{old} - \text{previous IMIP credit}$

26 (3) $IMIP_{limit} = [(MCA_{new} - MCA_{old}) \times 0.03] - IMIP_{old}$

27 (4) $IMIP_{due} = \min_{x \geq 0}(IMIP_{limit}, IMIP_{new})$

28 IMIP_{new} is calculated by multiplying the new IMIP rate by the new MCA of the
29 property being refinanced.

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1 For HECMs being refinanced for the first time, $IMIP_{old}$ is calculated by multiplying
2 the original IMIP rate by the original MCA of the property being refinanced.

3 For HECMs previously refinanced, $IMIP_{old}$ is calculated by multiplying the prior
4 IMIP rate by the prior MCA of the property being refinanced, then subtracting IMIP
5 credit previously applied.

6 $IMIP_{limit}$ is calculated by multiplying 0.03 by the difference between the new MCA
7 and old MCA, then subtracting the value calculated for $IMIP_{old}$.

8 $IMIP_{due}$ is the lesser of $IMIP_{limit}$ or $IMIP_{new}$, but cannot be less than zero.

9 If IMIP paid on the existing HECM is greater than the new IMIP due, there will be no
10 refunds. No additional credit is given for the IMIP paid on the last HECM transaction.

11 **(C) Calculation of Monthly Mortgage Insurance Premium**

12 FHA charges a monthly Mortgage Insurance Premium (MIP) of 0.50 percent on the
13 outstanding mortgage balance. The amount of the annual MIP will begin to accrue on
14 the outstanding mortgage balance from the day after the expiration of the rescission
15 period.

16 **vii. Fully Funded Life Expectancy Set-Aside**

17 When the HECM being refinanced has a Life Expectancy Set-Aside (LESA) in place, the
18 following requirements must be met.

19 **(A) Existing HECM with Fully Funded LESA Based on Property Charge**
20 **Payment History**

21 The Mortgagee must require a Fully Funded LESA for the new HECM when the
22 existing HECM previously required a Fully Funded LESA based on the Borrower's
23 unsatisfactory property charge payment history.

24 **(B) Existing HECM with Fully Funded LESA Based Only on Credit History**

25 Where the existing HECM previously required a Fully Funded LESA based solely on
26 unsatisfactory credit history, the Mortgagee must determine the need for a Fully
27 Funded LESA based on the new [financial assessment](#).

28 **(C) Existing HECM with Fully Funded LESA Based Only on Residual Income**
29 **Shortfall**

30 Where the existing HECM previously required a Fully Funded LESA based solely on
31 a Residual Income shortfall, the Mortgagee must determine the need for a Partially
32 Funded or Fully Funded LESA (where the Partially Funded LESA amount exceeds 75

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1 percent of Projected Life Expectancy Property Charges) based on the new [financial](#)
2 [assessment](#).

3 **(D) Existing HECM with Voluntary Fully Funded LESA**

4 Where the Borrower voluntarily elected to have a Fully Funded LESA on the existing
5 HECM, the Mortgagee must determine the need for a Fully Funded LESA on the new
6 HECM based on the new [financial assessment](#).

7 **(E) Existing HECM with Partially Funded LESA**

8 Where the Borrower was required to have a Partially Funded LESA on the existing
9 HECM, the Mortgagee must determine the need for a Partially Funded or Fully
10 Funded LESA (where the Partially Funded LESA amount exceeds 75 percent of
11 Projected Life Expectancy Property Charges) on the new HECM based on the new
12 [financial assessment](#).

13 **c. Condominiums**

14 The Federal Housing Administration (FHA) will insure HECMs on Condominium Units
15 (Units) in [Approved Condominium Projects](#) (see the Condominium Project Approval section
16 in Origination Through Post-Closing/Endorsement section of Handbook 4000.1) that have
17 been approved under the HUD Review and Approval Process (HRAP) or Direct
18 Endorsement Lender Review and Approval Process (DELRAP). In addition, FHA will insure
19 HECMs on Units approved in accordance with the [Single-Unit Approval](#) section (see this
20 section in the Origination Through Post-Closing/Endorsement section of Handbook 4000.1)
21 or that meet the definition and standards for a [Site Condominium](#) (see this section in the
22 Origination Through Post-Closing/Endorsement section of Handbook 4000.1).

23 **i. Units Not Requiring Approval**

24 **(A) Real Estate Owned Mortgages**

25 HUD Real Estate Owned (REO) HECM transactions do not require Condominium
26 Project Approval or Single-Unit Approval. If the Unit is in a Condominium Project
27 that has an FHA Condo ID, the Mortgagee must enter the FHA Condo ID when the
28 FHA case number is requested.

29 **(B) HECM-to-HECM Refinances**

30 HECM Refinances do not require Condominium Project Approval or Single-Unit
31 Approval. If the Unit is in a Condominium Project that has an FHA Condo ID, the
32 Mortgagee must enter the FHA Condo ID when the FHA case number is requested.

1 **ii. Requirements for Units in Approved Condominium Projects**

2 The Mortgagee must verify the following requirements for individual Units located in an
3 Approved Condominium Project or Legal Phase.

4 **(A) Condominium Project Approval Status**

5 The Mortgagee must confirm the Condominium Project is on the list of [FHA-](#)
6 [Approved Condominium Projects](#) at the time of case number assignment and must
7 enter the FHA Condo ID in the Federal Housing Administration Connection ([FHAC](#))
8 Case Assignment screen.

9 **(B) FHA Insurance Concentration**

10 **(1) Definition**

11 FHA Insurance Concentration refers to the number of FHA-insured Mortgages
12 within a Condominium Project.

13 **(2) Standard**

14 FHA may suspend the issuance of new FHA case numbers for a HECM on a Unit
15 in a Condominium Project where the FHA Insurance Concentration is greater than
16 50 percent of the total number of Units in the Condominium Project.

17 **(C) Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval***
18 ***Questionnaire***

19 **(1) Definition**

20 Form [HUD-9991](#), *FHA Condominium Loan Level/Single-Unit Approval*
21 *Questionnaire*, refers to a set of questions designed to collect pertinent loan,
22 Condominium Project, and Unit information for FHA insurance endorsement.

23 **(2) Standard**

24 The Mortgagee must submit a completed, signed, and dated form [HUD-9991](#).

25 **(D) Owner Occupancy Percentage**

26 **(1) Definitions**

27 Owner Occupancy Percentage refers to the percentage of Units considered owner-
28 occupied as shown in the calculation.

1 **(2) Standard**

2 The Mortgagee must determine the Approved Condominium Project has an
3 Owner Occupancy Percentage of at least 35 percent of the total number of Units.

4 The Mortgagee must report the Owner Occupancy Percentage in [FHAC](#) when the
5 functionality becomes available.

6 **(3) Required Documentation**

7 The Mortgagee must submit form [HUD-9991](#).

8 **(4) Calculation**

9 For the sole purpose of calculating the Owner Occupancy Percentage, the
10 numerator of the calculation for a multi-phased Condominium Project includes
11 the total number of the following Units in the first declared Legal Phase and
12 cumulatively in subsequent Legal Phases, or for a single-phased Condominium
13 Project, all of the following Units in the numerator of the calculation:

- 14 • any Unit that is occupied by the owner as their place of abode for any
15 portion of the calendar year and that is not rented for a majority of the
16 calendar year;
- 17 • any Unit listed for sale, and not listed for rent, that was previously
18 occupied by the owner as their place of abode for any portion of the
19 calendar year and that is not rented for a majority of the calendar year; or
- 20 • any Unit sold to an owner who intends to occupy the Unit as their place of
21 abode for any portion of the calendar year and has no intent to rent the
22 Unit for a majority of the calendar year.

23 For the sole purpose of calculating the Owner Occupancy Percentage, the
24 following Units are included in the denominator of the calculation for a:

- 25 • multi-phased Condominium Project, the total number of Units in the first
26 declared Legal Phase and cumulatively in subsequent Legal Phases; or
- 27 • single-phased Condominium Project, all Units.

28 A Unit owned by the builder/developer is not an owner-occupied Unit.

29 **(E) Financial Condition**

30 **(1) Units in Arrears**

31 **(a) Definition**

32 Units in Arrears refer to each Unit with Condominium Association dues or
33 any special assessments that are more than 60 Days past due.

1 **(b) Standard**

2 The Mortgagee must verify that no more than 15 percent of the total Units are
3 Units in Arrears (does not include late fees or administrative expenses).

4 **(c) Required Documentation**

5 The Mortgagee must submit form [HUD-9991](#).

6 **(2) Individual Owner Concentration**

7 **(a) Definition**

8 Individual Owner Concentration refers to the percentage of Units owned by a
9 single owner or Related Party.

10 Related Party includes, but is not limited to:

- 11 • an individual serving as the Unit owner’s officer, director, or
12 employee; or
- 13 • a Unit owner’s direct parent company, subsidiary, or any related Entity
14 with which the Unit owner shares a common officer or director.

15 **(b) Standard**

16 The Mortgagee must determine that for Condominium Projects with 20 or
17 more Units, the Individual Owner Concentration is 10 percent or less.

18 The Mortgagee must determine that for Condominium Projects with fewer
19 than 20 Units, the Unit owner may not own more than one Unit. No Related
20 Party may own a Unit.

21 **(c) Required Documentation**

22 The Mortgagee must submit form [HUD-9991](#).

23 **(d) Calculation**

24 For the Individual Owner Concentration calculation:

- 25 • on a multi-phased Condominium Project, the Individual Owner
26 Concentration is calculated based on the total number of Units in the
27 first declared Legal Phase and cumulatively on subsequent Legal
28 Phases; or
- 29 • on a single-phased Condominium Project, all Units are used in the
30 denominator when calculating the Individual Owner Concentration,
31 except unoccupied and unsold Units owned by a builder/developer,

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1 which are excluded from the numerator and denominator in the
2 Individual Owner Concentration calculation.

3 The Mortgagee must use the total number of declared Units in the
4 Condominium Project for Complete Condominium Projects and Gut
5 Rehabilitation (Gut Rehab) to calculate the Individual Owner Concentration.

6 **(F) Insurance**

7 **(1) Walls-In (HO-6)**

8 **(a) Definition**

9 Walls-In Insurance refers to insurance that covers the interior of the Unit and
10 Personal Property inside the Unit.

11 **(b) Standard**

12 The Mortgagee must verify that the Borrower has obtained a Walls-In policy
13 (HO-6) if the master or blanket policy does not include interior unit coverage,
14 including replacement of interior improvements and betterment coverage to
15 insure improvements that the Borrower may have made to the Unit.

16 **(c) Required Documentation**

17 The Mortgagee must submit form [HUD-9991](#) and the certificate of insurance
18 or complete copy of the insurance policy.

19 **(2) Hazard Insurance**

20 **(a) Definition**

21 Hazard Insurance refers to insurance coverage that compensates for physical
22 damage by fire, wind, or natural occurrences.

23 **(b) Standard**

24 The Mortgagee must verify that the Condominium Association has a master or
25 blanket hazard insurance policy in place for the entire Approved
26 Condominium Project in an amount equal to at least 100 percent of the
27 insurable replacement cost of the Approved Condominium Project, including
28 the individual Units in the Approved Condominium Project.

29 The Mortgagee must verify that any policy with a coinsurance clause includes
30 an agreed amount endorsement, selection of the agreed value option, or an
31 amount of coverage equal to at least 100 percent of the insurable replacement
32 cost.

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1 The Mortgagee must verify that any pooled insurance policy satisfies the
2 insurance coverage standard for each Condominium Project insured under the
3 policy.

4 The insurance policies must list the Condominium Association as the named
5 insured, or, in the case of an affiliated Approved Condominium Project or
6 Condominium Association, the name of the affiliated Approved
7 Condominium Project or Condominium Association may be listed as a named
8 insured.

9 Hazard Insurance must be maintained over the lifecycle of the HECM.

10 **(c) Required Documentation**

11 The Mortgagee must submit form [HUD-9991](#), the certificate of insurance or
12 complete copy of the insurance policy, and, if applicable, acceptable evidence
13 of the replacement cost value.

14 **(3) Flood Insurance**

15 **(a) Definition**

16 Flood Insurance refers to insurance that covers physical damage by floods.

17 **(b) Standard**

18 The Mortgagee must verify that Units in an Approved Condominium Project
19 located in a Special Flood Hazard Area (SFHA) continue to meet the [Flood](#)
20 [Insurance requirements in the Condominium Project Approval section](#) (see the
21 Flood Insurance (Existing Construction) section in the Origination Through
22 Post-Closing/Endorsement section of Handbook 4000.1).

23 The insurance policies must list the Condominium Association as the named
24 insured, or, in the case of an affiliated Approved Condominium Project or
25 Condominium Association, the name of the affiliated Approved
26 Condominium Project or Condominium Association may be listed as a named
27 insured.

28 **(c) Required Documentation**

29 The Mortgagee must submit form [HUD-9991](#) and the [required documentation](#)
30 [in the Condominium Project Approval Flood Insurance section](#) (see the
31 Special Flood Hazard Areas – Required Documentation section in the
32 Origination Through Post-Closing/Endorsement section of Handbook 4000.1).

1 **(4) Exception to FHA Insurance Requirements**

2 This exception applies to Manufactured Home Condominium Projects, Detached
3 Condominium Housing Projects, and Common Interest Housing Developments
4 unable to satisfy the current insurance requirements.

5
6 **(a) Definitions**

7 A Manufactured Home Condominium Project (MHCP) refers to a
8 Condominium Project that consists of two or more Manufactured Homes.

9
10 A Detached Condominium Housing Project (DCHP) refers to a Condominium
11 Project that has individual detached Single Family Dwelling Units, garage,
12 and onsite improvements that are owned and maintained by the homeowner.
13 The ground beneath the residential improvements is owned by the
14 Condominium Association or Homeowners' Association (HOA) or is under a
15 long- term leasehold interest and considered common area or limited common
16 area.

17
18 A Common Interest Housing Development (CIHD) refers to a planned
19 residential community that may consist of Units within a two- to four-unit
20 building and/or contain multiple housing types, structured with different
21 ownership interests, managed by a common Condominium Association or
22 HOA, and governed under one Declaration of Covenants, Conditions and
23 Restrictions (CC&Rs). The CIHD may share a variety of common amenities
24 and services.

25
26 **(b) Standard**

27 The Mortgagee must verify that the Unit owners and the Condominium
28 Association or HOA comply with FHA insurance coverage requirements.

29 **(i) Manufactured Housing Condominium Project**

30 If the governing documents require the Unit owners to maintain the
31 insurance policy, the MHCP is not required to maintain:

- 32 • a blanket Hazard Insurance policy, provided the governing
33 documents require the Unit owners to maintain individual hazard
34 insurance (Walls-In);
- 35 • a Liability Insurance policy, provided the governing documents
36 require the Unit owners to maintain individual liability insurance;
- 37 • a Flood Insurance policy, provided that the governing documents
38 require the Unit owners to maintain individual Flood Insurance if
39 the Unit has been identified as located in a Special Flood Hazard
40 Area (SFHA).

1 **(ii) The Condominium Association or HOA must carry master or**
2 **blanket insurance for Structures/improvements that are**
3 **considered common areas of the project outside the footprint of**
4 **the individual site. Detached Condominium Housing Project**

5 If the governing documents require the Unit owners to maintain all
6 applicable property insurance coverage for the dwelling, site area, and any
7 Personal Property contained within, the DCHP Condominium Association
8 or HOA is not required to maintain:

- 9 • a blanket Hazard Insurance policy, provided the governing
10 documents require the Unit owners to maintain individual Hazard
11 Insurance;
- 12 • a Liability Insurance policy, provided the governing documents
13 require the Unit owners to maintain individual Liability Insurance;
14 and
- 15 • a Flood Insurance policy, provided the governing documents
16 require the Unit owners to maintain individual Flood Insurance.

17 The Condominium Association or HOA must carry master or blanket
18 insurance for Structures/improvements that are considered common areas
19 of the project outside the footprint of the individual site.

20 **(iii) Common Interest Housing Development**

21 If the governing documents require the Unit owners of the detached Single
22 Family homes, Site Condominiums, duplex, or two-to-four units within
23 the project to maintain and carry property insurance for the dwelling, site
24 area and any Personal Property contained therein, the Condominium
25 Association or HOA is not required to maintain:

- 26 • a blanket Hazard Insurance policy, provided the governing
27 documents require the Unit owners to maintain individual Hazard
28 Insurance;
- 29 • a Liability Insurance policy, provided the governing documents
30 require the Unit owners to maintain individual Liability Insurance;
31 and
- 32 • a Flood Insurance policy, provided the governing documents
33 require the Unit owners to maintain individual Flood Insurance.

34 The Condominium Association or HOA must maintain and carry
35 master/blanket Hazard, Liability, and Flood insurance for the Structures
36 that contain the attached units and the common areas of the project.

1 **(3) Required Documentation**

2 The Mortgagee must submit required documentation for Existing Less Than One
3 Year under the guidance in [Required Documentation for New Construction](#)
4 [Properties](#).

5 **(I) Manufactured Housing**

6 **(1) Definition**

7 Manufactured Housing refers to Structures that are transportable in one or more
8 sections and meet the additional definition standards prescribed in [Property](#)
9 [Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages](#)
10 (see this section in the Origination Through Post-Closing/Endorsement section of
11 Handbook 4000.1). They may be part of an Approved Condominium Project,
12 provided the Condominium Project meets applicable FHA requirements.

13 A Manufactured Home refers to a single dwelling unit of Manufactured Housing.

14 **(2) Standard**

15 For a Manufactured Home, the Mortgagee must comply with the [General](#)
16 [Condominium Project Approval Requirements](#) (see this section in the Origination
17 Through Post-Closing/Endorsement section of Handbook 4000.1) and the
18 guidance in [Property Types - Manufactured Housing](#) (see this section in the
19 Origination Through Post-Closing/Endorsement section of Handbook 4000.1).

20 For HECM for Purchase transactions, the Mortgagee must comply with the
21 guidance in [Construction and Inspection Requirements for New Construction](#)
22 [HECM Properties](#).

23 **(3) Required Documentation**

24 The Mortgagee must submit form HUD-9991 and the required documentation for
25 Manufactured Housing under the guidance in [Property Types - Manufactured](#)
26 [Housing](#) (see this section in the Origination Through Post-Closing/Endorsement
27 section of Handbook 4000.1).

28 **iii. Single-Unit Approval**

29 Single-Unit Approval refers to approval of a Unit in a Condominium Project that is not
30 an Approved Condominium Project.

31 The Mortgagee must verify the following requirements for Single-Unit Approval.

1 **(A) Condominium Project Approval Status**

2 The Mortgagee must confirm the Condominium Project is not on the list of [FHA-](#)
3 [Approved Condominium Projects](#) at the time of case number assignment.

4 **(B) Borrower Eligibility**

5 To be eligible for Single-Unit Approval, the Mortgagee must verify that the HECM
6 Borrower:

- 7 • meets the applicable [Residual Income standard](#) without the use of
- 8 Compensating Factors; and
- 9 • has a [Satisfactory Property Charge Payment History](#) without the use of
- 10 [Extenuating Circumstances](#).

11 **(C) Property Eligibility**

12 The Mortgagee must confirm that the Condominium Project:

- 13 • has a Certificate of Occupancy (CO) that was issued at least one year ago or
- 14 has been occupied;
- 15 • has at least five Units;
- 16 • is not a Manufactured Home;
- 17 • does not have [Ineligible](#) Characteristics (see this section in the Origination
- 18 Through Post-Closing/Endorsement section of Handbook 4000.1);
- 19 • is not located in an Approved Condominium Project or unapproved phase of a
- 20 Condominium Project with an approved Legal Phase.

21 **(D) Requirements for Eligible Properties**

22 **(1) FHA Insurance Concentration**

23 **(a) Definition**

24 FHA Insurance Concentration refers to the number of FHA-insured
25 Mortgages within a Condominium Project.

26 **(b) Standard**

27 FHA may suspend the issuance of new FHA case numbers for a HECM on a
28 Unit in a Condominium Project when the FHA Insurance Concentration
29 exceeds 10 percent of the total number of Units in the Condominium Project
30 for Condominium Projects with 20 or more Units. For Condominium Projects
31 with less than 20 Units, the number of FHA-insured Mortgages cannot exceed
32 two.

1 **(2) Form HUD-9991, *FHA Condominium Loan Level/Single-Unit Approval***
2 ***Questionnaire***

3 **(a) Definitions**

4 Form [HUD-9991](#), *FHA Condominium Loan Level/Single-Unit Approval*
5 *Questionnaire*, refers to a set of questions designed to collect pertinent loan,
6 Condominium Project, and Unit information for FHA insurance endorsement.

7 Condominium Information Fee refers to a fee charged by a Condominium
8 Association when requested to provide information and documentation used
9 to determine eligibility for FHA-insured financing.

10 **(b) Standard**

11 The Mortgagee must submit a completed, signed, and dated form [HUD-9991](#).
12 If a condominium information fee is charged by the Condominium
13 Association to complete form HUD-9991, the condominium information fee
14 may be financed or paid in cash by the Borrower or Mortgagee.

15 **(3) Owner Occupancy Percentage**

16 **(a) Definition**

17 Owner Occupancy Percentage refers to the percentage of Units considered
18 owner-occupied as shown in the calculation.

19 **(b) Standard**

20 The Mortgagee must determine that the Condominium Project has an Owner
21 Occupancy Percentage of at least 50 percent of the total number of Units.

22 The Mortgagee must report the Owner Occupancy Percentage in [FHAC](#) when
23 the functionality becomes available.

24 **(c) Required Documentation**

25 The Mortgagee must submit form [HUD-9991](#).

26 **(d) Calculation**

27 For the sole purposes of calculating the Owner Occupancy Percentage, the
28 numerator of the calculation for a multi-phased Condominium Project
29 includes the total number of the following Units in the first declared Legal
30 Phase and cumulatively in subsequent Legal Phases, or for a single-phased
31 Condominium Project, all of the following Units are included in the numerator
32 of the calculation:

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- 1 • any Unit that is occupied by the owner as their place of abode for any
- 2 portion of the calendar year and that is not rented for a majority of the
- 3 calendar year;
- 4 • any Unit listed for sale, and not listed for rent, that was previously
- 5 occupied by the owner as their place of abode for any portion of the
- 6 calendar year and that is not rented for a majority of the calendar year;
- 7 or
- 8 • any Unit sold to an owner who intends to occupy the Unit as their
- 9 place of abode for any portion of the calendar year and has no intent to
- 10 rent the Unit for a majority of the calendar year.

11 For the sole purposes of calculating the Owner Occupancy Percentage, the

12 following units are included in the denominator of the calculation for a:

- 13 • multi-phased Condominium Project, the total number of Units in the
- 14 first declared Legal Phase and cumulatively on subsequent Legal
- 15 Phases; or
- 16 • single-phased Condominium Project, all Units.

17 A Unit owned by the builder/developer is not an owner-occupied Unit.

18 **(4) Recorded Documents**

19 **(a) Definition**

20 Recorded Documents refers to the Condominium Project’s legal, project, and

21 governing documents that are required to operate legally as required by state

22 and local law.

23 **(b) Standard**

24 The Condominium Project’s Recorded Documents must be recorded in

25 accordance with applicable state and local law to ensure the Condominium

26 Project can be legally operated in the local jurisdiction.

27 **(c) Required Documentation**

28 The Mortgagee must submit evidence that the Recorded Documents have been

29 recorded.

30 **(5) Transfer of Control**

31 **(a) Definitions**

32 Transfer of Control refers to the shift of existing control over the

33 Condominium Association from the developer/builder to the Unit owners.

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1 Control of the Condominium Association refers to the ability to directly or
2 indirectly control, direct, modify or veto any action of the Condominium
3 Association.

4 **(b) Standard**

5 The Mortgagee must verify Control of the Condominium Association has
6 been transferred to the Unit owners and the Covenants, Conditions, and
7 Restrictions (CC&R) have been recorded.

8 **(c) Required Documentation**

9 The Mortgagee must submit form [HUD-9991](#) and recorded CC&Rs.

10 **(6) Financial Condition**

11 **(a) Financial Stability**

12 **(i) Definition**

13 Financial Stability refers to the ability of the Condominium Association to
14 meet the Condominium Project's needs in the future through positive cash
15 flow and adequately funded reserves.

16 **(ii) Standard**

17 The Mortgagee must verify the Financial Stability of the Condominium
18 Project and that:

- 19 • the Condominium Association maintains separate accounts for
20 operating and reserve funds;
- 21 • a reserve account for capital expenditures and deferred
22 maintenance that is funded with at least 10 percent of the aggregate
23 of 12 months of Unit assessments, unless a lower amount is
24 deemed sufficient based upon an acceptable reserve study; and
- 25 • no more than 15 percent of the total Units are Units in Arrears
26 (does not include late fees or administrative expenses).

27 **(iii) Required Documentation**

28 The Mortgagee must submit form [HUD-9991](#).

29 **(b) Financial Distress Event**

30 **(i) Definition**

31 A Financial Distress Event refers to a Condominium Project or
32 builder/developer that has:

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- sought protection under bankruptcy law;
- been placed into receivership (mandated or voluntary);
- been subject to foreclosure or any seizure of assets by creditors; or
- offered a Deed-in-Lieu (DIL) of Foreclosure.

(ii) Standard

The Mortgagee must verify that a Condominium Project has not experienced a Financial Distress Event within the last three years.

(iii) Required Documentation

The Mortgagee must submit form [HUD-9991](#).

If applicable, the Mortgagee must submit a dated legal document evidencing Resolution of Financial Distress Event and a signed and dated explanation.

(c) Individual Owner Concentration

(i) Definition

Individual Owner Concentration refers to the percentage of Units owned by a single owner or Related Party.

Related Party includes, but is not limited to:

- an individual serving as the Unit owner’s officer, director, or employee; or
- a Unit owner’s direct parent company, subsidiary, or any related Entity with which the Unit owner shares a common officer or director.

(ii) Standard

The Mortgagee must determine that for Condominium Projects with 20 or more Units, the Individual Owner Concentration is 10 percent or less.

The Mortgagee must determine that for Condominium Projects with fewer than 20 Units, the Unit owner may not own more than one Unit. A Related Party may own a Unit, only if the Unit is owner-occupied and meets FHA’s principal residency requirements.

(iii) Required Documentation

The Mortgagee must submit form [HUD-9991](#).

1 **(iv) Calculation**

2 For the Individual Owner Concentration calculation:

- 3 • on a multi-phased Condominium Project, the Individual Owner
4 Concentration is calculated based on the total number of Units in
5 the first declared Legal Phase and cumulatively on subsequent
6 Legal Phases; or
7 • for a single-phased Condominium Project, all Units are used in the
8 denominator when calculating the Individual Owner
9 Concentration, except that unoccupied and unsold Units owned by
10 a builder/developer are excluded from the numerator and
11 denominator in the Individual Owner Concentration calculation.

12 The Mortgagee must use the total number of declared Units in the
13 Condominium Project for Complete Condominium Projects and Gut
14 Rehab to calculate the Individual Owner Concentration.

15 **(d) Commercial/Non-Residential Financial Independence**

16 **(i) Definition**

17 Commercial/Non-Residential Financial Independence refers to the ability
18 of the Residential Space and Commercial/Non-Residential Space of the
19 Condominium Project to be independently sustainable such that neither
20 portion of the Condominium Project is financially reliant on the other.

21 **(ii) Standard**

22 For projects with [Commercial/Non-Residential Space](#), the Mortgagee must
23 verify there is Commercial/Non-Residential Financial Independence.

24 **(iii) Required Documentation**

25 The Mortgagee must submit form [HUD-9991](#).

26 For Condominium Projects with Commercial/Non-Residential Space, the
27 Mortgagee must submit:

- 28 • a current year budget approved by the board(s);
29 • a year-to-date income and expense statement dated within 90 Days
30 if the prior year to date actuals are more than 90 Days old;
31 • an income and expense statement for the previous year's actual
32 year end results; and
33 • a current balance sheet dated within 90 Days prior to the date of
34 submission.

1 **(7) Insurance Coverage**

2 The Condominium Project where the single Unit is located must be insured to
3 FHA standards as well as any applicable state and local condominium
4 requirements.

5 The insurance policies must list the Condominium Association as the named
6 insured, or in the case of an Affiliated Condominium Project or Condominium
7 Association, the name of the Affiliated Condominium Project or Condominium
8 Association may be listed as a named insured.

9 **(a) Walls-In (HO-6)**

10 **(i) Definition**

11 Walls-In Insurance refers to insurance that covers the interior of the Unit
12 and Personal Property inside the Unit.

13 **(ii) Standard**

14 The Mortgagee must verify that the Borrower has obtained a Walls-In
15 coverage policy (HO-6) if the master or blanket policy does not include
16 interior Unit coverage, including replacement of interior improvements
17 and betterment coverage to insure improvements that the Borrower may
18 have made to the Unit.

19 **(iii) Required Documentation**

20 The Mortgagee must submit form [HUD-9991](#) and a certificate of
21 insurance or complete copy of the insurance policy.

22 **(b) Hazard Insurance**

23 **(i) Definition**

24 Hazard Insurance refers to insurance coverage that compensates for
25 physical damage by fire, wind, or natural occurrences.

26 **(ii) Standard**

27 The Mortgagee must verify that the Condominium Association has a
28 master or blanket hazard insurance policy in place for the entire
29 Condominium Project in an amount equal to at least 100 percent of the
30 insurable replacement cost of the Condominium Project, including the
31 individual Units in the Condominium Project.

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1 The Mortgagee must verify that any policy with a coinsurance clause
2 includes an agreed amount endorsement, selection of the agreed value
3 option, or an amount of coverage equal to at least 100 percent of the
4 insurable replacement cost.

5 The Mortgagee must verify that any pooled insurance policy satisfies the
6 insurance coverage standard for each Condominium Project insured under
7 the policy.

8 Hazard Insurance must be maintained over the lifecycle of the HECM.

9 **(iii) Required Documentation**

10 The Mortgagee must submit form [HUD-9991](#) and a certificate of
11 insurance or complete copy of the insurance policy, and, if applicable,
12 acceptable evidence of the replacement cost value.

13 **(c) Liability Insurance**

14 **(i) Definition**

15 Liability Insurance refers to insurance that protects against legal claims.

16 **(ii) Standard**

17 The Mortgagee must verify that the Condominium Association maintains
18 comprehensive Liability Insurance for the entire Condominium Project,
19 including all common areas, elements, public ways, and all other areas that
20 are under its supervision, in the amount of at least \$1 million for each
21 occurrence.

22 Liability Insurance must be maintained over the lifecycle of the HECM.

23 **(iii) Required Documentation**

24 The Mortgagee must submit form [HUD-9991](#) and a certificate of
25 insurance or complete copy of the insurance policy.

26 **(d) Fidelity Insurance**

27 **(i) Definition**

28 Fidelity Insurance refers to insurance that protects the Condominium
29 Association against employee dishonesty, crime, or other fraudulent acts
30 conducted by one or more employees.

1 **(ii) Standard**

2 The Mortgagee must verify that for all Condominium Projects with more
3 than 20 Units, the Condominium Association maintains Fidelity Insurance
4 for all officers, directors, and employees of the Condominium Association
5 and all other persons handling or responsible for funds administered by the
6 Condominium Association.

7 The Mortgagee must verify that the insurance coverage is the greater of
8 either:

- 9
- 10 • three months of aggregate (12-month) assessments on all Units
11 plus reserve funds (up to the maximum permitted by state law); or
 - the minimum amount required by state law.

12 If the Condominium Project engages a management company, the policy
13 or policies must demonstrate that they specifically meet the standard for
14 both the Condominium Association and the management company.

15 **(iii) Required Documentation**

16 The Mortgagee must submit form [HUD-9991](#) and the certificate of
17 insurance or a complete copy of the insurance policy from the
18 Condominium Association and/or from the management company.

19 **(e) Flood Insurance**

20 **(i) Definition**

21 Flood Insurance refers to insurance that covers physical damage by floods.

22 **(ii) Standard**

23 The Mortgagee must verify that Units in a Condominium Project located
24 in a SFHA meet the [Flood Insurance requirements in the Condominium
25 Project Approval section](#) (see this section in the Origination Through Post-
26 Closing/Endorsement section of Handbook 4000.1).

27 **(iii) Required Documentation**

28 The Mortgagee must submit form [HUD-9991](#) and the [required
29 documentation in the Condominium Project Approval section](#) (see the
30 Special Flood Hazard Areas – Required Documentation section in the
31 Origination Through Post-Closing/Endorsement section of Handbook
32 4000.1).

1 **(f) Exception for FHA Insurance Requirements**

2 The Mortgagee must verify that the Unit owners and Condominium
3 Association or HOA comply with FHA insurance coverage requirements.

4 **(i) Detached Condominium Housing Project Eligibility**

5 If the governing documents require the Unit owners to maintain all
6 applicable property insurance coverage for the dwelling, site area, and any
7 Personal Property contained within, the DCHP Condominium Association
8 or HOA is not required to maintain:

- 9 • a blanket Hazard Insurance policy, provided the governing
10 documents require the Unit owners to maintain individual Hazard
11 Insurance;
- 12 • a Liability Insurance policy, provided the governing documents
13 require the Unit owners to maintain individual Liability Insurance;
14 and
- 15 • a Flood Insurance policy, provided the governing documents
16 require the Unit owners to maintain individual Flood Insurance.

17 The Condominium Association or HOA must carry master or blanket
18 insurance for Structures/improvements that are considered common areas
19 of the project outside the footprint of the individual site.

20 **(ii) Common Interest Housing Development Project**

21 If the governing documents require the Unit owners of the detached Single
22 Family homes, Site Condominiums, duplex, or two- to-four units within
23 the project to maintain and carry property insurance for the dwelling, site
24 area, and any Personal Property contained therein, the Condominium
25 Association or HOA is not required to maintain:

- 26 • a blanket Hazard Insurance policy, provided the governing
27 documents require the Unit owners to maintain individual Hazard
28 Insurance;
- 29 • a Liability Insurance policy, provided the governing documents
30 require the Unit owners to maintain individual Liability Insurance;
31 and
- 32 • a Flood Insurance policy, provided the governing documents
33 require the Unit owners to maintain individual Flood Insurance.

34 The Condominium Association or HOA must maintain and carry
35 master/blanket Hazard, Liability, and Flood Insurance for the Structures
36 that contain the attached units and the common areas of the project.

1 **(iii) Required Documentation**

2 The Mortgagee must submit form HUD-9991 and certificates of insurance
3 or complete copies of the insurance policies.

4 **(8) Projects in Coastal Barrier Resources System or Special Flood Hazard**
5 **Areas**

6 **(a) Projects in Coastal Barrier Resources System**

7 If any part of the Condominium Project is located within the Coastal Barrier
8 Resources System (CBRS), the Condominium Project is [not eligible](#) for FHA
9 Single-Unit Approval (see the Special Flood Hazard Areas section in the
10 Origination Through Post-Closing/Endorsement section of Handbook 4000.1).

11 **(b) Special Flood Hazard Areas**

12 If any portion of the Structures or equipment essential to the value of the
13 Condominium Project is located within an SFHA, then the Condominium
14 Project is not eligible for Condominium Project Approval, unless the
15 Condominium Project meets the [Special Flood Hazard Areas requirements in](#)
16 [the Condominium Project Approval section](#) (see this section in the Origination
17 Through Post-Closing/Endorsement section of Handbook 4000.1).

18 **(9) Commercial/Non-Residential Space**

19 **(a) Definitions**

20 Commercial/Non-Residential Space refers to floor area allocated to:

- 21 • retail and commercial square footage (excludes [Live/Work Units](#));
- 22 • multi-level parking garage square footage that is separate from multi-
23 level parking garage square footage allocated to residential Unit
24 owners;
- 25 • building common areas not reserved for the exclusive use of
26 residential Unit owners; and
- 27 • any square footage that is owned by a private individual or Entity
28 outside of the Condominium Association.

29 Residential Space refers to floor area allocated to:

- 30 • all Unit square footage;
- 31 • all building common area square footage exclusively for the use of
32 residential Unit owners; and
- 33 • all parking garage square footage allocated to residential Unit owners.

34 Parking lot square footage is not considered Residential or Commercial/Non-
35 Residential Space.

1 Total Floor Area refers to all Residential Space and Commercial/Non-
2 Residential Space.

3 **(b) Standard**

4 The Mortgagee must verify that the Condominium Project's
5 Commercial/Non-Residential Space does not exceed 35 percent of the
6 Condominium Project's Total Floor Area.

7 **(c) Required Documentation**

8 The Mortgagee must submit the following documentation:

- 9 • form [HUD-9991](#);
- 10 • recorded site condominium plans; and
- 11 • recorded CC&Rs.

12 **(10) Live/Work Unit**

13 **(a) Definitions**

14 A Live/Work Condominium Project refers to a Condominium Project that
15 allows space within the individual Unit to be used jointly for non-residential
16 and residential purposes.

17 A Live/Work Unit refers to a Unit in a Live/Work Condominium Project.

18 **(b) Standard**

19 The Mortgagee must verify that the Condominium Project governing
20 documents allow Live/Work arrangements.

21 The Mortgagee must verify that the individual Live/Work Unit does not
22 contain more than 49 percent non-residential space.

23 **(c) Required Documentation**

24 The Mortgagee must submit form [HUD-9991](#).

25 **(11) Leasehold Interest**

26 **(a) Definition**

27 Leasehold Interest refers to real estate where the residential improvements are
28 located on land that is subject to long-term lease from the underlying fee
29 owner, creating a divided estate in the Property.

1 **(b) Standard**

2 The Mortgagee must determine if Condominium Projects with Units or
3 Common Elements owned under a Leasehold Interest are eligible and meet
4 the following requirements:

- 5 • The Condominium Association must be the lessee under the lease.
- 6 • The lease of the Common Elements provides that a default of the
7 Condominium Association does not result in a disturbance of any
8 rights of the Unit owners.
- 9 • The lease provides that the Mortgagee receives notice of any monetary
10 or Non-Monetary Default by the Condominium Association and is
11 given the right to cure any defaults on behalf of the Condominium
12 Association.
- 13 • The lease provides for the payment of taxes and insurance related to
14 the land, in addition to those being paid for the improvements.
- 15 • The Condominium Association must not be in default under any
16 provisions of the lease.
- 17 • The lease does not include any default provisions that could result in
18 forfeiture or termination of the lease except for nonpayment of lease
19 rents.
- 20 • The Condominium Project must comply with the Title II [Leasehold](#)
21 [guidance](#) as applicable.

22 **(c) Required Documentation**

23 The Mortgagee must submit the lease and comply with the required
24 documentation in the [Leasehold guidance](#).

25 **(12) Litigation**

26 **(a) Definition**

27 Litigation refers to a current or pending lawsuit or proceedings in a court,
28 arbitration, or mediation involving the Condominium Project or
29 Condominium Association, or those concluded within 12 months of the
30 application date. Litigation does not include foreclosure or actions to collect
31 past due assessments brought by the Condominium Association or
32 Condominium Project as plaintiff.

33 **(b) Standard**

34 The Mortgagee must verify that the Condominium Project or Condominium
35 Association is not subject to Litigation that relates to the safety, structural
36 soundness, habitability, or functional use of the Condominium Project.

II. Origination through Post-Closing/Endorsement
B. Title II Insured Housing Programs Home Equity Conversion Mortgages
8. Programs and Products - Condominiums

1 The Mortgagee must verify that the Condominium Project or Condominium
2 Association is not subject to any other Litigation risk not covered by insurance
3 or that exceeds the amount of insurance coverage relating to the potential
4 losses for that matter.

5 **(c) Required Documentation**

6 The Mortgagee must submit form [HUD-9991](#).

7 **iv. Site Condominium**

8 **(A) Definition**

9 A Site Condominium refers to:

- 10 • a Condominium Project that consists entirely of Single Family detached
11 dwellings that have no shared garages, or any other attached buildings; or
- 12 • a Condominium Project that:
 - 13 ○ consists of Single Family detached or horizontally attached (townhouse)
14 dwellings where the Unit consists of the dwelling and land;
 - 15 ○ does not contain any Manufactured Housing Units; and
 - 16 ○ is encumbered by a declaration of condominium covenants or a
17 condominium form of ownership.

18 **(B) Standard**

19 The Unit owner must be responsible for all insurance and maintenance costs,
20 excluding landscaping, of the Site Condominium.

21 Site Condominiums do not require Condominium Project Approval or Single-Unit
22 Approval.

23 **(C) Required Documentation**

24 The Mortgagee must submit the following documentation:

- 25 • [Condominium Rider](#);
- 26 • appraisal completed on [Fannie Mae Form 1073/Freddie Mac Form 465](#),
27 *Individual Condominium Unit Appraisal Report*, evidencing that all Units
28 satisfy the Site Condominium definition;
- 29 • certificate of Hazard Insurance or complete copy of the insurance policy
30 evidencing coverage of the entire dwelling; and
- 31 • if required under the [Flood Insurance requirements in the Condominium](#)
32 [Project Approval Section](#) (see this section in the Origination Through Post-
33 Closing/Endorsement section of Handbook 4000.1), certificate of Flood
34 Insurance or complete copy of the insurance policy evidencing coverage of
35 the entire dwelling.

1 **C. CONDOMINIUM PROJECT APPROVAL**

2 **D. APPRAISER AND PROPERTY REQUIREMENTS FOR TITLE II FORWARD AND**
3 **REVERSE MORTGAGES**

4 **1. Commencement of the Appraisal**

5 **a. Information Required before Commencement of Appraisal**

6 **b. Additional Information Required Before Commencement of an Appraisal on New**
7 **Construction**

8 The Appraiser must obtain, from the Mortgagee, a fully executed form [HUD-92541](#),
9 *Builder's Certification of Plans, Specifications, and Site*, dated no more than 30 Days prior to
10 the date of the appraisal order and documents related to New Construction, including plans,
11 specifications, and any exhibits provided that will assist the Appraiser in determining what is
12 to be built, or, if now Under Construction, what will be built when finished.

13 **c. Additional Information Required Before Commencement of an Appraisal on a**
14 **Property with an Exception from the Lead-Based Paint Poisoning Prevention Act**
15 **(LPPPA) (HECM Only)**

16 A Property's ability to serve as collateral for the HECM program may qualify for an
17 exception from the remediation of defective lead-based paint surfaces. To qualify for the
18 exception under the Lead-Based Paint Poisoning Prevention Act (LPPPA), as amended by
19 the Residential Lead-Based Paint Hazard Reduction Act of 1992, the Mortgagee must obtain
20 the Borrower's certification that the Property qualifies as housing for the elderly and that no
21 child under six years of age resides, or is expected to reside, in the home.

22 When performing an appraisal for a Property that meets the LPPPA exception requirements:

- 23 • the Mortgagee must identify the Property as qualifying for the exception;
24 • the repair of defective lead-based paint surfaces is not required to meet MPR and the
25 appraisal report must reflect the impact of the Property's defective lead-based paint
26 surfaces; and
27 • the appraisal report must prominently include the statement: "The mortgagee has
28 identified that they have obtained borrower certification that this property qualifies
29 for the exception from mitigating lead-based paint hazards under the Lead-Based
30 Paint Poisoning Prevention Act."

31 **2. General Appraiser Requirements**

32 The Appraiser must follow FHA guidance and comply with the [Uniform Standards of](#)
33 [Professional Appraisal Practice \(USPAP\)](#) when completing appraisals of Property used as
34 security for FHA-insured Mortgages. The Appraiser must observe, analyze, and report that the
35 Property meets HUD's MPR and MPS.

II. Origination through Post-Closing/Endorsement

D. Appraiser and Property Requirements for Title II Forward and Reverse Mortgages

3. Acceptable Appraisal Reporting Forms and Protocols

1 Minimum Property Requirements (MPR) refer to general requirements that all homes insured by
2 FHA be safe, sound, and secure.

3 Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety,
4 soundness and security of New Construction.

5 Every Property must be safe, sound, and secure so that the Mortgagee can determine eligibility.
6 The Appraiser must note every instance where the Property is not safe, sound, and secure and
7 does not comply with HUD's MPR and MPS.

8 When performing an appraisal, the Appraiser must review and analyze the following:

- 9 • the land lease, if applicable;
- 10 • surveys or legal descriptions, if available; and
- 11 • any other legal documents contained in the loan file,

12 and report the results of that analysis in the appraisal report.

13 Sales Transaction or New Construction

14 When performing an appraisal for a sales transaction or on New Construction, the Appraiser
15 must also review and analyze the following:

- 16 • the complete copy of the executed sales contract for the subject; and
- 17 • documents related to New Construction, including plans, specifications, and any exhibits
18 provided that will assist the Appraiser in determining what is to be built, or, if now Under
19 Construction, what will be built when finished;

20 and report the results of that analysis in the appraisal report.

21 If the seller is not the owner of record, the Appraiser must include an explanation in the appraisal
22 report.

23 3. Acceptable Appraisal Reporting Forms and Protocols

24 a. Application of Minimum Property Requirements and Minimum Property 25 Standards by Construction Status

26 i. Existing Construction

27 (A) Definition

28 Existing Construction refers to a Property that has been 100 percent complete for over
29 one year or has been completed for less than one year and was previously occupied.

1 **(B) Standard**

2 For Existing Construction, the Appraiser must notify the Mortgagee of the
3 deficiencies when the Property does not comply with HUD’s MPR.

4 **ii. New Construction**

5 **(A) Definition**

6 New Construction refers to Proposed Construction, Properties Under Construction,
7 and Properties Existing Less than One Year as defined below:

- 8 • Proposed Construction refers to a Property where no concrete or permanent
9 material has been placed. Digging of footing is not considered permanent.
- 10 • Under Construction refers to the period from the first placement of permanent
11 material to 100 percent completion with no Certificate of Occupancy (CO) or
12 equivalent.
- 13 • Existing Less than One Year refers to a Property that is 100 percent complete
14 and has been completed less than one year from the date of the issuance of the
15 CO or equivalent. The Property must have never been occupied.

16 **(B) Standard**

17 For New Construction, the Appraiser must notify the Mortgagee of the deficiencies
18 when the Property does not comply with HUD’s MPR and MPS, including [24 CFR](#)
19 [§§ 200.926a-200.926e](#).

20 **iii. Determination of Defective Conditions**

21 **(A) Definition**

22 Defective Conditions refer to defective construction, evidence of continuing
23 settlement, excessive dampness, leakage, decay, termites, environmental hazards or
24 other conditions affecting the health and safety of occupants, collateral security or
25 structural soundness of the dwelling.

26 **(B) Standard**

27 The Appraiser must identify readily observable defective conditions.

28 **Defective Conditions Requiring Repair**

29 The Appraiser must identify defective conditions that are curable and will make the
30 Property comply with HUD’s MPR or MPS when cured, and provide an estimated
31 cost to cure.

1 **b. Minimum Property Requirements and Minimum Property Standards**

2 **i. Legal Requirements**

3 **(A) Real Estate Entity**

4 **(B) Property Rights**

5 **(C) Planned Unit Development**

6 **(D) Leasehold Interest**

7 **(1) Definition**

8 **(2) Standard**

9 **(a) Forward Mortgage Requirements**

10 **(b) Reverse Mortgage (HECM) Requirements**

11 A reverse mortgage, or Home Equity Conversion Mortgage (HECM), secured
12 by real estate under Leasehold requires a renewable lease for not less than 99
13 years, or a lease with the actuarial life expectancy of the Mortgagor. Sub-
14 Leasehold Estates are not eligible for FHA mortgage insurance.

APPENDIX 9.0 - ASSUMED LOAN PERIODS FOR COMPUTATIONS OF TOTAL ANNUAL LOAN COST RATES

(a) Required tables. In calculating the total annual loan cost rates, creditors shall assume three loan periods, as determined by the following table.

(b) Loan periods.

(1) Loan Period 1 is a two-year loan period.

(2) Loan Period 2 is the life expectancy in years of the youngest Borrower to become obligated on the reverse mortgage loan, as shown in the U.S. Decennial Life Tables for 1979-1981 for females, rounded to the nearest whole year.

(3) Loan Period 3 is the life expectancy figure in Loan Period 2, multiplied by 1.4 and rounded to the nearest full year (life expectancy figures at 0.5 have been rounded up to 1).

(4) At the creditor's option, an additional period may be included, which is the life expectancy figure in Loan Period 2, multiplied by 0.5 and rounded to the nearest full year (life expectancy figures at 0.5 have been rounded up to 1).

Age of youngest Borrower	Loan Period 1 (in years)	[Optional Loan Period (in years)]	Loan Period 2 (life expectancy) (in years)	Loan Period 3 (in years)
62	2	[11]	21	29
63	2	[10]	20	28
64	2	[10]	19	27
65	2	[9]	18	25
66	2	[9]	18	25
67	2	[9]	17	24
68	2	[8]	16	22
69	2	[8]	16	22
70	2	[8]	15	21
71	2	[7]	14	20
72	2	[7]	13	18
73	2	[7]	13	18
74	2	[6]	12	17
75	2	[6]	12	17
76	2	[6]	11	15

Appendix 9.0 - Assumed Loan Periods for Computations of Total Annual Loan Cost Rates

Age of youngest Borrower	Loan Period 1 (in years)	[Optional Loan Period (in years)]	Loan Period 2 (life expectancy) (in years)	Loan Period 3 (in years)
77	2	[5]	10	14
78	2	[5]	10	14
79	2	[5]	9	13
80	2	[5]	9	13
81	2	[4]	8	11
82	2	[4]	8	11
83	2	[4]	7	10
84	2	[4]	7	10
85	2	[3]	6	8
86	2	[3]	6	8
87	2	[3]	6	8
88	2	[3]	5	7
89	2	[3]	5	7
90	2	[3]	5	7
91	2	[2]	4	6
92	2	[2]	4	6
93	2	[2]	4	6
94	2	[2]	4	6
95 and over	2	[2]	3	

1

1 **SERVICING AND LOSS MITIGATION -**
2 **TITLE II INSURED HOUSING PROGRAMS**
3 **HOME EQUITY CONVERSION MORTGAGES (HECM)**

1 **III. SERVICING AND LOSS MITIGATION**

2 **A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES**

3 **B. TITLE II INSURED HOUSING PROGRAMS HOME EQUITY CONVERSION**
4 **MORTGAGES**

5 This section provides the standards and procedures applicable to the servicing of Home Equity
6 Conversion Mortgages (HECM) insured under Section 255 of the National Housing Act. The
7 Mortgagee must fully comply with all of the following standards and procedures when servicing
8 a HECM insured by the Federal Housing Administration (FHA).

9 **1. Servicing of FHA-Insured HECMs**

10 Only FHA-approved Mortgagees may service FHA-insured HECMs. Mortgagees may service
11 HECMs they hold or that are held by other FHA-approved Mortgagees.

12 **a. Servicing in Compliance with Law**

13 **i. Definitions**

14 The Mortgage Holder (Holder) is the Entity who holds title to the FHA-insured HECM
15 and has the right to enforce the mortgage agreement.

16 The Mortgage Servicer (Servicer) refers to the Entity responsible for performing
17 servicing actions on FHA-insured HECMs on its own behalf or on behalf of or at the
18 direction of another FHA-approved Mortgagee.

19 **ii. Standard**

20 Holders must ensure all FHA-insured HECMs are serviced by a Servicer in accordance
21 with FHA requirements and all applicable laws.

22 Servicers must service all FHA-insured HECMs in accordance with FHA requirements
23 and all applicable laws.

24 **(A) Laws Applicable to Mortgage Servicing**

25 Mortgagees must comply with all laws, rules, and requirements applicable to
26 mortgage servicing, including requirements under the purview of the Consumer
27 Financial Protection Bureau (CFPB), the Real Estate Settlement Procedures Act
28 (RESPA) and the Truth in Lending Act (TILA), as may be made applicable to
29 HECMs.

30 FHA requirements that are more stringent or restrictive than those provided for in
31 applicable law are set forth in this Handbook 4000.1 and the Mortgagee must comply
32 with these requirements.

1 **(B) Contract Terms**

2 The Mortgagee must comply with the HECM contract terms unless doing so would
3 result in violation of a more stringent or restrictive statute.

4 **(C) Nondiscrimination Policy**

5 Mortgagees must comply with all antidiscrimination laws, rules, and requirements
6 applicable to servicing FHA-insured HECMs, including full compliance with the
7 applicable requirements of:

- 8 • the Fair Housing Act, 42 U.S.C. §§ 3601 - 3619;
- 9 • the Fair Credit Reporting Act (FCRA), 15 U.S.C. § 1681, et seq.; and
- 10 • the Equal Credit Opportunity Act (ECOA) 15 U.S.C. § 1691, et seq.

11 The Mortgagee must make all determinations with respect to the adequacy of the
12 Borrower's income in a uniform manner without regard to race, color, religion, sex,
13 national origin, familial status, handicap, marital status, actual or perceived sexual
14 orientation, gender identity, source of income of the Borrower, or location of the
15 Property.

16 **b. Responsibility for Servicing Actions**

17 Holders are responsible for all servicing actions, including the acts of its Servicers.

18 Servicers are responsible for their actions in servicing FHA-insured HECMs, including
19 actions taken on behalf, or at the direction, of the Holder.

20 The costs associated with servicing must not be imposed on the Borrower or passed along to
21 HUD in a claim for mortgage insurance benefits, except for a servicing fee if agreed upon by
22 the Borrower at origination.

23 **i. Responsibility during Transfers of Servicing Rights**

24 **(A) Definitions**

25 The Transferor Servicing Mortgagee refers to the Mortgagee that transfers servicing
26 responsibilities.

27 The Transferee Servicing Mortgagee refers to the Mortgagee to which the servicing
28 responsibilities have been transferred.

29 The Transfer Date refers to the effective date the servicing of any HECM is
30 transferred from one servicing Mortgagee to another.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

1 **(B) Standard**

2 The Transferor Servicing Mortgagee remains responsible for the servicing of an
3 FHA-insured HECM until the Transfer Date. The Transferor Servicing Mortgagee
4 must verify that the change of legal rights to service has been accurately reported to
5 HUD.

6 On the Transfer Date, the Transferee Servicing Mortgagee assumes responsibility for:

- 7 • all servicing actions, including ensuring resolution of any servicing errors that
- 8 were, and remain, the responsibility of the Transferor Servicing Mortgagee;
- 9 • obtaining the complete HECM file, including origination and servicing
- 10 records; and
- 11 • ensuring that the original Note and Mortgage are preserved.

12 **(C) Required Documentation**

13 The Transferor Servicing Mortgagee must report the Transfer Date and update the
14 mortgage record in Home Equity Reverse Mortgage Information Technology
15 (HERMIT) within 15 Days of the Transfer Date.

16 **ii. Responsibility for Servicing when the Mortgage is Sold**

17 **(A) Definitions**

18 A Mortgage Sale refers to a transaction in which a Holder sells the Mortgage to
19 another FHA-approved Mortgagee.

20 The Purchasing Mortgage Holder is the Mortgagee that purchases the Mortgage and
21 thereby succeeds to all rights and obligations of the Selling Mortgage Holder under
22 the contract for mortgage insurance.

23 The Selling Mortgage Holder or Selling Mortgagee is the Mortgagee that sells the
24 mortgage and thereby relinquishes all rights and obligations under the contract for
25 mortgage insurance.

26 **(B) Standard**

27 The Selling Mortgagee remains responsible for Mortgage Insurance Premiums (MIP)
28 until notice of the sale is received by HUD via HERMIT.

29 As of the effective date of the sale, the Purchasing Mortgagee becomes responsible
30 for outstanding MIP obligations, regardless of the date of accrual, and must confirm
31 that the details of the mortgage sale have been reported accurately.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

1 **(C) Required Documentation**

2 The Selling Mortgagee must report the date of the sale of the Mortgage as the
3 “Transfer Date” and update the mortgage record in HERMIT within 15 Days of the
4 date of the sale.

5 **iii. Registration with Mortgage Electronic Registration System, Inc.**

6 **(A) Definition**

7 The Mortgage Electronic Registration System (MERS) is an electronic tracking
8 system identified as nominee for a Holder of a Mortgage.

9 **(B) Standard**

10 Mortgagees may voluntarily register FHA-insured HECMs with MERS.

11 **c. Providing Information to HUD**

12 The Mortgagee must respond to verbal or written requests for individual account
13 information, including all servicing information and related data and the entire mortgage
14 origination file, from HUD staff or from a HUD-approved counseling agency acting with the
15 consent of the Borrower.

16 When HUD staff request information, the Mortgagee must make available legible
17 documents, in the format (electronic or hard copy) requested within 24 hours of the request,
18 or as otherwise permitted by HUD.

19 **d. Communication with Borrowers and Authorized Third Parties**

20 **i. Definition**

21 Authorized Third Parties refer to parties who are not Borrowers on the Mortgage but who
22 are authorized to communicate with the Mortgagee regarding a Mortgage.

23 **ii. Standard**

24 The Mortgagee must provide mortgage information and arrange for individual
25 consultation, upon request by the Borrowers.

26 The Mortgagee must comply with all laws, rules, and requirements applicable to third-
27 party access to mortgage information.

28 **iii. Required Documentation**

29 If communicating with an Authorized Third Party, the Mortgagee must include
30 documentation of the authorization in the servicing binder:

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

- 1 • a copy of a signed authorization from the Borrower;
2 • a copy of a Power of Attorney (POA), order of guardianship, or other legal
3 documentation authorizing that third party to act on behalf of the Borrower; or
4 • other legal documentation showing authorization to access the Borrower’s
5 records.

6 e. Borrower Disbursements

7 i. Definition

8 Borrower Disbursements are all disbursements made to a Borrower from available
9 HECM funds.

10 ii. Standard

11 Mortgagees must make all payments to the Borrower according to the current payment
12 plan so long as the HECM is not Due and Payable subject to the Initial Disbursement
13 Limit.

14 iii. Payment Plans

15 (A) Tenure Payment Option

16 The tenure payment option is available for adjustable rate HECMs. The Borrower
17 receives fixed monthly payments so long as the HECM is not prepaid in full or
18 becomes Due and Payable, or the payments do not exceed any maximum mortgage
19 amount stated in the security instrument or would otherwise exceed the amount
20 secured, even if the payments exceed the Borrower’s available principal limit.

21 (B) Term Payment Option

22 The term payment option is available for adjustable rate HECMs. The Borrower
23 receives equal monthly payments for a term of months so long as the HECM is not
24 prepaid in full or becomes Due and Payable, or the payments do not exceed any
25 maximum mortgage amount stated in the security instrument or would otherwise
26 exceed the amount secured by the first HECM lien, even if the payments exceed the
27 Borrower’s available principal limit.

28 (C) Line of Credit Payment Option

29 The line of credit payment option is available for adjustable rate HECMs. The
30 Borrower receives unscheduled payments at times and in amounts of the Borrower’s
31 choosing.

1 **(D) Modified Tenure Payment Option**

2 The modified tenure payment option is available for adjustable rate HECMs. The
3 Borrower must set aside a portion of the Principal Limit as a line of credit from which
4 to draw at times and in amounts of their choosing, and receives the rest in equal
5 monthly payments so long as the HECM is not prepaid in full or becomes Due and
6 Payable, or the payments do not exceed any maximum mortgage amount stated in the
7 security instrument or would otherwise exceed the amount secured by the first HECM
8 lien.

9 **(E) Modified Term Payment Option**

10 The modified term payment option is available for adjustable rate HECMs. The
11 Borrower must set aside a portion of the Principal Limit as a line of credit from which
12 to draw at times and in amounts of their choosing, and receives the rest in equal
13 monthly payments for a term of months selected by the Borrower.

14 **(F) Single Lump Sum Payment Option**

15 The single lump sum payment option is only available for fixed rate HECMs. The
16 Borrower receives a single Disbursement at closing. After closing, the Mortgagee
17 must not disburse HECM proceeds to the Borrower, except from a Set-Aside
18 established at closing.

19 **iv. Payment Plan Changes**

20 **(A) Voluntary Payment Plan Changes**

21 The Borrower can request to change the payment plan at any time during the life of
22 the HECM, unless the Borrower chose a lump sum payment plan at closing. The
23 Mortgagee may charge a fee, not to exceed \$20.00, for changing the Borrower's
24 payment plan.

25 **(1) Standard**

26 The Mortgagee must send the Borrower a written explanation of the terms,
27 including the option for the Borrower to sign and return the new payment plan,
28 within five business days of receipt of the Borrower's request for a new payment
29 plan. The Mortgagee must complete the payment plan change within five business
30 days of receipt of the new signed payment plan from the Borrower.

31 **(2) Required Documentation**

32 The Mortgagee must retain copies of the written explanation sent to the Borrower
33 and the signed payment plan received from the Borrower in the servicing file for
34 the HECM.

1 **(B) Required Payment Plan Changes**

2 The Mortgagee must change a Borrower’s payment plan when:

- 3 • a Borrower with a term or tenure payment plan has funds remaining in a
- 4 Repair Set-Aside after all repairs are completed and paid in full;
- 5 • payments that have been suspended for more than six months resume; or
- 6 • the Borrower has failed to make a required property charge payment before
- 7 the due date and the Borrower does not have sufficient available funds in an
- 8 existing line of credit to pay the expense, but does have funds available if
- 9 monthly payments are converted to a line of credit.

10 **(1) Definition**

11 Property Charges refer to obligations of the Borrower that include:

- 12 • property taxes;
- 13 • Hazard Insurance premiums;
- 14 • applicable Flood Insurance premiums;
- 15 • Ground Rents;
- 16 • Homeowners’ Association (HOA)/Condominium Fees;
- 17 • Planned Unit Development (PUD) fees; and other special assessments that
- 18 may be levied by municipalities or state law.

19 **(2) Standard**

20 When a payment plan change is required, the Mortgagee must modify the

21 Borrower’s payment plan and provide written notice to the Borrower of the new

22 payment plan and the reason for the payment plan change within five business

23 days of the payment plan change.

24 **(3) Required Documentation**

25 Mortgagees must keep documentation of the reason for the payment plan change

26 and the notice provided to the Borrower in the servicing file.

27 **v. Late Charges**

28 **(A) Standard**

29 The Mortgagee must pay a Late Charge and interest to the Borrower for any

30 scheduled disbursement made after the first business day of the month or any line of

31 credit payment made more than five business days after the receipt of request for

32 disbursement as follows:

- 33 • 10 percent of the amount of the payment due to the Borrower, not to exceed
- 34 \$500 on a single late payment; and

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

- 1 • interest at the daily HECM Note interest rate on the late payment for each
2 Day the payment is late.

3 If the HECM has an adjustable interest rate, the rate in effect when the Late Charge
4 first begins to accrue must be used.

5 The Mortgagee must pay any Late Charges and interest from Mortgagee funds and
6 must not add them to the outstanding HECM balance.

7 **(B) Required Documentation**

8 The Mortgagee must include documentation of the Late Charges and interest paid to
9 the Borrower in the servicing file. This must include the amount of the Late Charge
10 and interest paid, the date that the payment was made, and evidence of the method by
11 which the payment to the Borrower was made.

12 **vi. Initial Disbursement Limit**

13 **Monitoring and Tracking Disbursements**

14 During the First 12-Month Disbursement Period, the Mortgagee must monitor and track
15 all Disbursements to ensure that the total of all Disbursements does not exceed the Initial
16 Disbursement Limit.

17 **vii. Required Documentation**

18 The Mortgagee must:

- 19 • maintain a transaction history that includes the amount and date of each
20 Disbursement;
21 • upload all transactions to [HERMIT](#) by the last Day of the month; and
22 • retain copies of all written requests for funds in the servicing file including the
23 date the request was received.

24 **f. Payment Administration**

25 **i. Receipt of Payments**

26 **(A) Definition**

27 Payments are any funds remitted to the Mortgagee to reduce the balance owed under
28 the HECM.

29 **(B) Standard**

30 The Mortgagee must either use a Trust Clearing Account or special custodial account to
31 hold all payments on the insured Mortgage.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

1 The Mortgagee's Trust Clearing Account may be used for collections received on all
2 types of Mortgages. If a Trust Clearing Account is not used, the Mortgagee must
3 immediately transfer payments into a special custodial account.

4 **ii. Application of Payments**

5 Mortgagees must apply Borrower payments in the following order:

- 6 • to MIPs due, if any;
- 7 • to charges for Ground Rents, taxes, special assessments, flood insurance
8 premiums, if required, and fire and other hazard insurance premiums;
- 9 • to interest on the Mortgage; and
- 10 • to the principal of the Mortgage.

11 **iii. Trustee's Fees for Satisfactions**

12 If specifically provided for in the security instrument, the Mortgagee may charge the
13 Borrower the amount of the trustee's fee, plus any reasonable and customary fee for
14 payment, or for the execution of a satisfaction, release or trustee's deed when the debt is
15 paid in full.

16 **iv. Recording Fees for Satisfactions**

17 The Mortgagee may charge the Borrower a reasonable and customary fee for recording
18 satisfactions in states where recordation is not the responsibility of the Mortgagee.

19 **g. Servicing Fees and Charges**

20 **i. Definitions**

21 Allowable Fees and Charges are those costs associated with the servicing of the
22 Mortgage that are permitted to be charged to the Borrower.

23 Prohibited Fees and Charges are those costs associated with the servicing of the
24 Mortgage that may not be charged to the Borrower.

25 **ii. Standard**

26 **(A) Allowable Fees and Charges**

27 The Mortgagee may collect certain reasonable and customary fees and charges from
28 the Borrower after the Mortgage is insured and as authorized by HUD below. All fees
29 must be:

- 30 • reasonable and customary for the local jurisdiction;

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- based on actual cost of the work performed or actual out-of-pocket expenses and not a percentage of either the face amount or the unpaid principal balance of the Mortgage; and
- within the [maximum amount allowed by HUD](#).

(B) Request for Approval for Other Fees or Charges

The Mortgagee may request approval from the National Servicing Center (NSC) for any fee, charge, or unusual service not specifically mentioned in this Handbook 4000.1.

(C) Prohibited Fees and Charges

The Mortgagee must not charge the Borrower for the following services:

- costs of telephone calls, personal visits with the Borrower, certified mail, or other activities that are normally considered a part of a prudent Mortgagee's servicing activity;
- Mortgagee's use of an independent contractor such as a tax service to furnish tax data and information necessary to pay property taxes or make the payments on behalf of the Mortgagee;
- preparing and providing evidence of Payoff, Reconveyance, or termination of the Mortgage, except for a trustee's fee if the deed of trust provides for payment of such a fee for execution of a satisfactory, release, or trustee's deed when the deed of trust is paid in full;
- providing information essential to the Payoff;
- recording the Payoff of the Mortgage in states where recordation is the responsibility of the Mortgagee; or
- fees for services performed by attorneys or trustees who are salaried members of the Mortgagee's staff.

iii. Required Documentation

The Mortgagee must include in the servicing file:

- documentation of the amount of any fees and charges paid or payable by the Borrower; and
- documentation supporting the actual costs of any work performed or out-of-pocket expenses.

h. Interest Rate Changes for Adjustable Rate HECMs

i. Definition

Adjustable Rate HECMs refer to HECMs for which the interest rate will be adjusted periodically (monthly or annually) based on the Borrower's election at closing.

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ii. Determining Periodic Adjustments to the Note Interest Rate

When determining the Note interest rate and subsequent rate adjustments, the Mortgagee must use an index type approved by the Secretary. The margin is the same margin used to determine the initial Note interest rate and the periodic adjustments to the Note interest rate.

When adjusting the rate for the Constant Maturity Treasury (CMT) Index, the Mortgagee must:

- use the one-month or one-year CMT rate in effect 30 Days before the change date; and
- provide the Borrower with a Notice of Interest Rate Change at least 25 Days before the first adjustment in the outstanding balance after the change date.

When adjusting the rate for the London Interbank Offered Rate (LIBOR) Index, the Mortgagee must:

- use the one-month or one-year LIBOR rate in effect 30 Days before the change date; and
- provide the Borrower with a Notice of Interest Rate Change at least 25 Days before the first adjustment in the outstanding balance after the change date.

When adjusting the rate for the Standard Overnight Financing Rate (SOFR) Index, the Mortgagee must:

- use the 30-day average SOFR rate in effect 30 Days before the change date; and
- provide the Borrower with a Notice of Interest Rate Change at least 25 Days before the first adjustment in the outstanding balance after the change date.

iii. Notice of Rate Change

The [Notice of Interest Rate Change](#) must advise the Borrower of the following:

- the new HECM interest rate;
- the current index value; and
- the publication date of the index.

iv. Required Documentation

The Mortgagee must retain in the servicing file:

- supporting documentation of the CMT rate used in the adjustment; and
- a copy of the Notice of Interest Rate Change sent to the Borrower.

i. Set-Asides

i. Definition

A Set-Aside refers to an amount of funds withheld by the Mortgagee from the Borrower's HECM funds for payment of certain fees and expenses. Set-Aside types include:

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- 1 • Repair Set-Asides
- 2 • Property Charge Set-Asides
- 3 • Servicing Fee Set-Asides

4 **ii. Standard**

5 Set-Aside funds remain part of the Borrower’s HECM proceeds, are non-interest bearing,
6 and must not be held in an escrow account. When the funds are disbursed, the Mortgagee
7 must add the actual payments to the HECM balance. The Mortgagee must manage Set-
8 Aside funds in accordance with requirements for each specific Set-Aside type.

9 **iii. Repair Set-Aside**

10 **(A) Definitions**

11 A Repair Set-Aside is the portion of the Principal Limit equal to 150 percent of the
12 Commissioner’s estimated cost of repairs, plus a repair administration fee, that is set
13 aside to fund repairs required to bring the mortgaged Property into compliance with
14 FHA’s Minimum Property Standards (MPS).

15 **(B) Standard**

16 When [required repairs](#) are completed and such completion is confirmed by the
17 Mortgagee through an inspection, the Mortgagee shall release funds from the Repair
18 Set-Aside and ensure that all mechanic’s and materialmen’s liens are released of
19 record.

20 The Mortgagee must only disburse funds from a Repair Set-Aside during a Deferral
21 Period if the repairs are completed satisfactorily during the time period established in
22 the Repair Rider, or in additional time approved by HUD.

23 **(C) Required Documentation**

24 The Mortgagee shall retain copies of all inspections performed to ensure completion
25 of the required repairs and copies of all invoices paid from the Repair Set-Aside in
26 the servicing file.

27 **iv. Property Charge Set-Aside**

28 **(A) Definitions**

29 Property Charge Set-Aside refers to a portion of a Borrower’s Principal Limit that is
30 designated for payment of Property Charges. A Property Charge Set-Aside can result
31 from a Borrower being required to establish a Life Expectancy Set-Aside (LESA) or
32 when a Borrower elects to have the Mortgagee pay Property Charges on their behalf.

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1 Fully Funded Life Expectancy Set-Aside (LESA) refers to a portion of the
2 Borrower's Principal Limit that is designated for payment of property taxes, Hazard
3 Insurance and, if applicable, Flood Insurance for the estimated remainder of the
4 Borrower's life expectancy. With a Fully Funded LESA, the Mortgagee makes
5 payments directly to the billing agency.

6 Partially Funded Life Expectancy Set-Aside (LESA) refers to a portion of the
7 Borrower's Principal Limit that is designated for partial payment of property taxes,
8 Hazard Insurance and, if applicable, Flood Insurance for the estimated remainder of
9 the Borrower's life expectancy. With a Partially Funded LESA, the Mortgagee makes
10 payments to the Borrower who is responsible for the remaining amounts owed and
11 delivering the full payment to the billing agency.

12 (B) Standard

13 (1) Fully Funded Life Expectancy Set-Aside

14 When servicing HECMs for which Property Charges are paid through a Fully
15 Funded LESA, the Mortgagee must ensure that:

- 16 • payments are disbursed before bills become delinquent. If the payments
17 are disbursed after the bills become delinquent, the Mortgagee must pay
18 any late fees, interest, and other charges from its own funds;
- 19 • early payments are made to take advantage of a discount, whenever it is to
20 the Borrower's benefit;
- 21 • LESA funds are not held in an escrow account; and
- 22 • payments for LESA and Voluntary Election Property Charges are added to
23 the HECM balance when the Mortgagee disburses funds to the taxing
24 authority, insurance carrier, or the Borrower.

25 The Mortgagee must provide the Borrower notification in writing that:

- 26 • funds will be used to pay the taxing authority or insurance carrier directly;
- 27 • the Mortgagee is responsible for making timely payments to the taxing
28 authority or insurance carrier when funds are sufficient;
- 29 • the projected amount of funds required to cover the allowed LESA and
30 Voluntary Election Property Charges over the estimated life expectancy of
31 the youngest Borrower may be insufficient to cover LESA and Voluntary
32 Election Property Charges for the full length of that specified amount of
33 time;
- 34 • no funds will be available during any applicable Deferral Period for an
35 Eligible Non-Borrowing Spouse (NBS); and
- 36 • the Borrower is responsible for the payment of all Property Charges,
37 including the LESA and Voluntary Election Property Charges, over the life
38 of the HECM when funds are insufficient or the balance of the LESA is
39 zero.

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(2) Partially Funded Life Expectancy Set-Aside

When servicing HECMs for which funds are distributed to the Borrower from a Partially Funded LESA, the Mortgagee must ensure that:

- funds are not held in an escrow account;
- funds are disbursed to the Borrower semiannually;
- the taxing authority and/or insurance carrier received the Borrower's payment; and
- the semiannual Disbursements to the Borrower are added to the HECM balance when disbursed.

If the remaining Set-Aside funds are insufficient to make the next semiannual payment, or the Set-Aside balance is zero, the Mortgagee must, within 30 Days of receipt of a property charge bill:

- notify the Borrower in writing that they are responsible for making all future payments with non-HECM funds; and
- recommend to the Borrower that they contact a HUD-approved Housing Counselor to receive counseling services including viable alternatives to comply with the terms of the HECM.

The Mortgagee must provide the Borrower notification in writing that:

- the Borrower will receive semiannual payments from the Set-Aside, which must be used to pay the taxing authority and insurance carrier;
- the Borrower is responsible for making timely payments to the taxing authority and insurance carrier over the life of the HECM;
- the projected amount of funds required to cover defined Property Charges over the estimated life expectancy of the youngest Borrower and the income assumptions used to project semiannual distributions to the Borrower may be insufficient to cover LESA and Voluntary Election 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 NBS; and
- the Borrower will no longer receive semiannual payments and will continue to be responsible for the payment of the Property Charges, including the LESA and Voluntary Election Property Charges, over the life of the HECM when funds are insufficient or the balance of the Set-Aside is zero.

(3) Insufficient Set-Aside Funds to Make Payment

If the Set-Aside funds are insufficient, the Mortgagee must use the remaining funds available in the Set-Aside and:

- if the Borrower has a line of credit, deduct the remaining amount for the payment from the line of credit; or

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- 1 • if the Borrower does not have a line of credit, adjust the Borrower’s
2 payment plan to accommodate the Disbursement.

3 If funds are still insufficient, the Mortgagee must advance corporate funds and the
4 HECM may be eligible to be called [Due and Payable](#).

5 **(C) Required Documentation**

6 The Mortgagee must document in its servicing file its efforts to obtain the billing
7 information from the Borrower, billing agency, or the taxing authority.

8 The Mortgagee must also:

- 9 • maintain a transaction history that includes the amount and date of each
10 Disbursement;
11 • upload all transactions to [HERMIT](#) by the last Day of the month in which the
12 Disbursement is made; and
13 • retain date-stamped copies of all bills paid in the servicing file.

14 v. Servicing Fee Set-Asides

15 **(A) Definition**

16 A Servicing Fee Set-Aside is a Principal Limit Set-Aside to pay for an allowable
17 monthly servicing fee each month for the duration of the youngest HECM Borrower’s
18 life expectancy.

19 **(B) Standard**

20 Mortgagees must disburse funds each month from the Servicing Fee Set-Aside for
21 any HECM that has a monthly servicing fee and add the amount disbursed to the
22 HECM loan balance.

23 **(C) Required Documentation**

24 The Mortgagee shall maintain an accurate transaction history reflecting the monthly
25 servicing fee disbursement and must upload the transaction to [HERMIT](#) monthly.

26 j. Allowable Fees and Charges

27 i. Definition

28 Allowable Fees and Charges refer to those costs associated with the servicing of the
29 Mortgage that are permitted to be charged to the Borrower.

1 **(A) Monthly Servicing Fee**

2 **(1) Definition**

3 A Monthly Servicing Fee is a fixed monthly charge for servicing activities of the
4 Mortgagee starting in the month of loan closing and continuing through the life of
5 the loan, including any applicable Deferral Period.

6 The maximum allowable monthly servicing fee for a HECM with a monthly
7 adjustable interest rate is \$35.

8 The maximum allowable monthly servicing fee for a HECM with a fixed or
9 annually adjustable interest rate is \$30.

10 **(2) Standard**

11 If the Mortgagee chose to assess a monthly servicing fee at closing, the
12 Mortgagee must withdraw the monthly servicing fee from the existing Servicing
13 Fee Set-Aside and add the amount of the monthly servicing fee to the HECM
14 balance.

15 **(B) Additional Permissible Reasonable and Customary Fees and Charges**

16 The Mortgagee may collect reasonable and customary fees and charges that are not
17 already paid with funds from the monthly servicing fee after the HECM is insured
18 and as authorized by HUD below. All fees must be:

- 19 • reasonable and customary for the local jurisdiction;
- 20 • based on actual cost of the work performed or actual out-of-pocket expenses
21 and not a percentage of either the face amount or the unpaid principal balance
22 of the HECM; and
- 23 • within the [maximum amount allowed by HUD](#).

24 No attorney fees may be charged for the services of the Mortgagee's attorney.

25 The Mortgagee may assess and add the following fees and charges to the outstanding
26 principal balance:

- 27 • a maximum of \$20 for changing a Borrower's payment plan;
- 28 • substitution of Hazard Insurance policy other than the normal time for
29 renewing the policy;
- 30 • attorney or trustee fees associated with a foreclosure;
- 31 • property inspections and preservation expenses; and
- 32 • attorney fees and expenses when the Mortgagee is made a party to litigation
33 by reason of the HECM.

1 **(C) Requests for Approval for Other Fees or Charges**

2 The Mortgagee may request approval from the NSC for any fee, charge, or unusual
3 service not specifically mentioned in this Handbook 4000.1.

4 **ii. Required Documentation**

5 The Mortgagee must include in the servicing file:
6 • documentation of the amount of any fees and charges paid or payable by the
7 Borrower;
8 • approval from the NSC for any fees and charges requiring such approval; and
9 • documentation supporting the actual cost of any work performed or out-of-pocket
10 expenses.

11 **k. Prepayment**

12 **i. Definition**

13 A Prepayment in Full, or Payoff, refers to the payment in whole of the principal amount
14 of the HECM in advance of expiration of the term of the HECM.

15 **ii. Standard**

16 The Mortgagee must accept a prepayment of a HECM in whole or in part without penalty
17 to the Borrower.

18 **iii. Prepayment Procedures**

19 If the Borrower prepays the HECM in full, the HECM is terminated.

20 **iv. Trustee Fees for Satisfaction**

21 The Mortgagee must operate in accordance with the security instrument when preparing
22 the satisfaction. If the security instrument allows, the Mortgagee may charge the
23 Borrower:
24 • the amount of the trustee’s fee including any reasonable and customary fees; or
25 • for the execution of a satisfaction, the release of trustee’s deed when the debt is
26 paid in full.

27 **v. Recordation Fees for Satisfaction**

28 The Mortgagee may charge the Borrower for recordation fees incurred where the cost of
29 recordation is not the responsibility of the Mortgagee in accordance with state, local, and
30 tribal law.

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vi. Application of Prepayments

The Mortgagee must apply Borrower payments in accordance with the HECM Note and in the following order:

- MIPs;
- servicing fees;
- interest; and
- principal.

vii. Application of Partial Prepayments

(A) Definition

A Partial Prepayment refers to a payment of part of the principal amount before the date on which the principal is due.

(B) Standard

The Mortgagee must allow the Borrower to make a Partial Prepayment at any time. The Mortgagee must apply Partial Prepayments in accordance with the mortgage Note and in the following order:

- MIPs;
- servicing fees;
- interest; and
- principal.

The Mortgagee must not provide a Borrower with a fixed rate HECM with any additional funds, regardless of a Partial Prepayment.

For Borrowers with an adjustable interest rate and for whom a Partial Prepayment results in additional Principal Limit to become available to the Borrower, the Mortgagee must allow the Borrower to determine how the additional Principal Limit is used. The Borrower may choose to:

- increase monthly payments by reducing the outstanding balance and increasing the Net Principal Limit (NPL) available;
- set up or increase a line of credit without altering existing monthly payments by reducing the outstanding balance and increasing the NPL; or
- continue payments that have ceased or are nearing cessation.

If the Borrower does not designate an account, the Mortgagee must apply any funds going toward the principal to:

- an existing line of credit; or
- create a new line of credit in accordance with the HECM loan agreement.

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1. Servicing of FHA-Insured HECMs

1 Any change in subsequent payments to the Borrower must be made only at the
2 Borrower's request or to accommodate payment of expenses on the Borrower's behalf.

3 I. Completion of Required Repairs

4 i. Definition

5 Completion of Repairs refers to an agreement the Borrower may have entered into at
6 closing to complete required repairs after closing. The provisions of this agreement are
7 contained in the Repair Rider to the loan agreement that the Borrower signed at closing.

8 ii. Standard

9 The Mortgagee must adhere to the provisions of the Repair Rider and ensure that the
10 repairs are completed and inspected before funds for repairs are disbursed. When the
11 required repairs are completed, the Mortgagee must:

- 12 • complete and sign form [HUD-92051](#), *Compliance Inspection Report*;
- 13 • during the First 12-Month Disbursement Period, change the payment plan, if
14 available under the Initial Disbursement Limit, and disburse from an existing line
15 of credit. If sufficient funds are not available in the line of credit to cover the cost
16 of repairs, recalculate future payments and provide an unscheduled payment;
- 17 • after the First 12-Month Disbursement Period, change the payment plan and disburse
18 from an existing line of credit. If sufficient funds are not available in the line of credit
19 to cover the cost of repairs, recalculate future payments and provide an unscheduled
20 payment.
- 21 • disburse jointly to the Borrower and the contractor(s) funds equal to the cost of
22 the repairs;
- 23 • add the amount of the disbursements to the outstanding HECM balance when the
24 payment is made;
- 25 • after disbursing funds to pay for all required repairs, if there are excess funds in
26 the Repair Set-Aside, send the Borrower with an adjustable rate HECM a notice
27 which states the remaining funds are available in the line of credit, which the
28 Borrower is encouraged to maintain to meet unexpected expenses;
- 29 • reimburse Borrowers for the actual cost of repair materials from the Repair Set-
30 Aside, but must not reimburse for any labor the Borrower performed;
- 31 • not make additional funds available to the Borrower with a fixed rate HECM,
32 regardless of any funds remaining after the funds are disbursed for repairs, except
33 that a Borrower may be reimbursed for the cost of repair materials (not including
34 labor); and
- 35 • where the required repairs are not completed by the date specified on the Repair
36 Rider, or any additional time as approved by HUD (not to exceed 12 months from
37 closing), suspend all payments until the repairs are satisfactorily completed.

1 **iii. Required Documentation**

2 The Mortgagee must upload into [HERMIT](#), and retain in the servicing file, copies of the
3 following:

- 4 • inspections after the required repairs are completed;
- 5 • the completed and signed form HUD-92051;
- 6 • a signed mechanic’s or materialman’s lien release, if applicable;
- 7 • invoices or sales receipts for any materials that the Borrower ordered and paid and
8 for which the Borrower is reimbursed; and
- 9 • checks payable to the Borrower and contractors.

10 **m. Insurance Coverage Administration**

11 **i. Hazard Insurance**

12 **(A) Standard**

13 The Borrower is required to have, and maintain for the life of the HECM, Hazard
14 Insurance, but may instruct the Mortgagee to purchase and make payments for this
15 insurance. HUD and the Mortgagee may determine hazards which must be insured
16 against.

17 The Mortgagee must purchase and make payments for Hazard Insurance where the
18 Borrower has required the Mortgagee to do so.

19 **(1) Case Numbers Assigned before September 19, 2017**

20 The Mortgagee must:

- 21 • cover 100 percent of the insurable value of property improvements at the
22 time of closing;
- 23 • be named as a “Loss Payee” on the Hazard Insurance policy; and
- 24 • set aside sufficient funds for the payment of the renewal premium.

25 If the Borrower chooses to be responsible for obtaining Hazard Insurance, the
26 Mortgagee must obtain from the Borrower a copy of the insurance policy and
27 evidence that the policy is renewed upon expiration. If the Borrower does not
28 provide evidence that the policy has been renewed, the Mortgagee must proceed
29 with the steps outlined in [Lender-Placed Insurance](#).

30 **(2) Case Numbers Assigned on or after September 19, 2017**

31 The Mortgagee must:

- 32 • maintain the amount for the period of time that is necessary to protect the
33 Mortgagee’s investment;
- 34 • be named as a “Loss Payee” on the Hazard Insurance policy; and
- 35 • set aside sufficient funds for the payment of the renewal premium.

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1 If the Borrower chooses to be responsible for obtaining Hazard Insurance, the
2 Mortgagee must obtain from the Borrower a copy of the insurance policy and
3 evidence that the policy is renewed upon expiration.

4 (B) Required Documentation

5 The Mortgagee must retain in the servicing file an annually issued certificate of
6 insurance that is sufficiently detailed or a complete copy of the insurance policy to
7 establish that the insurance meets the standard.

8 ii. Insurance on Units in a Condominium Unit

9 (A) Hazard

10 (1) Standard

11 The Mortgagee must verify that the Property is insured in the amount required
12 under the [Hazard Insurance](#) section if the Condominium Association does not
13 maintain Hazard Insurance in accordance with such requirements.

14 (2) Required Documentation

15 The Mortgagee must retain in the servicing file a certificate of insurance that is
16 sufficiently detailed or a complete copy of the insurance policy to establish that
17 the insurance meets the standard.

18 (B) Walls-In (HO-6)

19 (1) Standard

20 The Mortgagee must verify that the Borrower has obtained a “Walls-In” coverage
21 policy (HO-6) if the master or blanket policy does not include interior unit
22 coverage, including replacement of interior improvements and betterment
23 coverage, to insure improvements that the Borrower may have made to the unit.

24 The total coverage of both policies must equal 100 percent of the required [Hazard](#)
25 [Insurance](#) amount.

26 (2) Required Documentation

27 The Mortgagee must retain in the servicing file an annually issued certificate of
28 insurance that is sufficiently detailed or a complete copy of the insurance policy
29 to establish that the insurance meets the standard.

1 **iii. Payment of Renewal Premium**

2 **(A) Standard**

3 When the Borrower has required the Mortgagee to purchase Hazard Insurance, the
4 Mortgagee must pay the renewal premium when it is due.

5 If the Borrower is required to pay the premium and fails to do so, the Mortgagee
6 must:

- 7 • advance funds from the line of credit; or
- 8 • change the payment plan, if needed, and advance the funds.

9 **(B) Required Documentation**

10 Where the Borrower has required the Mortgagee to purchase Hazard Insurance or the
11 Mortgagee advanced the funds because the Borrower failed to pay the renewal
12 premium, the loan history must reflect each transaction as it is disbursed. In addition,
13 the Mortgagee must retain in its servicing file copies of:

- 14 • the premium renewal notice;
- 15 • the check payable to the insurance company; and
- 16 • any required payment plan change.

17 Where the Borrower pays the renewal premium, the Mortgagee must obtain a copy of
18 the declaration page of the policy with evidence of the new expiration date.

19 **iv. Fee for Change in Hazard Insurance Policy**

20 The Mortgagee may assess a reasonable and customary fee, up to the amount listed in
21 [Appendix 3.0](#), for processing the Borrower's request to change hazard insurance
22 coverage when the existing policy has not yet expired.

23 **v. Flood Insurance**

24 **(A) Standard**

25 For Properties located within a Special Flood Hazard Area (SFHA), the Mortgagee
26 must ensure that Flood Insurance is in force for the life of the HECM or so long as
27 such coverage remains available, unless the area in which the Property is located is no
28 longer designated as an SFHA. Flood insurance must be an amount at least equal to
29 the lesser of:

- 30 • 100 percent of the replacement cost of the insurable value of property
31 improvements at the time of closing;
- 32 • the maximum amount of the National Flood Insurance Program (NFIP)
33 insurance available with respect to the property improvements; or
- 34 • the outstanding principal balance of the HECM.

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1. Servicing of FHA-Insured HECMs

1 If remapping causes a Property securing a HECM to become located in an SFHA, the
2 Mortgagee must enforce HUD's flood insurance requirements on coverage amounts
3 and maintenance.

4 **(B) Required Documentation**

5 The Mortgagee must retain in the servicing file an annually issued certificate of
6 insurance that is sufficiently detailed or a complete copy of the insurance policy to
7 establish that the insurance meets the standard.

8 **vi. Lender-Placed Insurance**

9 **(A) Definition**

10 Lender-Placed Insurance refers to Hazard and/or Flood Insurance purchased by the
11 Mortgagee when the Borrower fails to renew the applicable required policy.

12 Reasonable Rate refers to a rate that does not exceed the rate or advisory rate set by
13 the principal state-licensed rating organization for essential property insurance in the
14 voluntary market or, if coverage is available under a Fair Access to Insurance
15 Requirements (FAIR) Plan, the FAIR Plan rate. For states without a principal state-
16 licensed rating organization or FAIR Plan, the Mortgagee must provide to the Home
17 Ownership Center (HOC) having jurisdiction, information concerning the lowest rates
18 available from an insurer for the types of coverage involved, with a request for a
19 determination of whether the rate is reasonable. FHA will determine a rate is
20 reasonable if it is the lowest rate available from an insurer for the types of coverage
21 involved that approximates the rate assessed for comparable insurance coverage
22 applicable to similarly situated properties in a state that offers a FAIR Plan or
23 maintains a state-licensed rating organization.

24 **(B) Standard**

25 If the Borrower fails to renew or provide evidence of acceptable property insurance
26 coverage when required, the Mortgagee must purchase a lender-placed Hazard and/or
27 Flood Insurance where Flood Insurance is required. The Mortgagee may, at its
28 discretion, obtain more coverage than is necessary to protect the Mortgagee's interest.

29 All insurance policies must be obtained at a reasonable rate.

30 **vii. Hazard or Flood Insurance Proceeds**

31 **(A) Insurance Claims**

32 The Mortgagee must take necessary steps to ensure that hazard or flood insurance
33 claims are filed and settled as expeditiously as possible.

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1 **(B) Loss Settlement Amounts for Borrower Expenses and Personal Property**

2 The Mortgagee must promptly release to the Borrower all insurance settlement
3 proceeds received for coverage of a Borrower's Personal Property, temporary
4 housing, and other transition expenses. The Mortgagee may not withhold
5 Disbursement of such proceeds to cover an existing arrearage, such as a property
6 charge advance, without the written consent of the Borrower.

7 **(C) Insurance Proceeds for Home Damage**

8 **(1) Definition**

9 A Viable Repair Plan refers to a plan for repairs of a mortgaged Property within
10 the amounts available through insurance proceeds and borrower funds.

11 **(2) Standard**

12 The Mortgagee must expedite the release of insurance proceeds for needed home
13 repairs after ensuring sufficient funds are available and approving a Viable Repair
14 Plan.

15 **(D) Application of Insurance Proceeds to Unpaid Principal Balance**

16 The Mortgagee must not apply insurance proceeds payable for home damages to
17 arrearages and/or reduction of the unpaid principal balance unless:

- 18 • the amount of the proceeds exceeds the costs to repair the damages to the
19 home; or
- 20 • the insurance proceeds are insufficient to repair the home damages based on a
21 certified repair estimate, and the Borrower is unable to demonstrate that they
22 have additional funds from other sources to complete the repairs.

23 If the Mortgagee receives repayment from insurance or condemnation proceeds after
24 restoration or repair of the damaged Property, then the available Principal Limit and
25 HECM balance must be reduced by the amount of such proceeds.

26 **n. Mortgage Insurance Premium Remittance**

27 **i. Definition**

28 Annual or Periodic MIPs refer to those MIPs that are remitted to HUD each month.

29 **ii. Standard**

30 The Mortgagee must remit one-twelfth of the annual MIP due to HUD each month by
31 authorizing [HERMIT](#) to collect the full premium from the Mortgagee's bank account.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

1 When payment is remitted, the Mortgagee must add the payment to the Borrower's
2 outstanding balance.

3 If the HECM is transferred or sold to another Mortgagee, the transfer must be completed
4 in [HERMIT](#) before the end of the month in order to ensure the MIP is remitted by the
5 correct Mortgagee.

6 **iii. Mortgage Insurance Premium Reports**

7 **(A) Use of HERMIT**

8 The Mortgagee can access the Premiums Batch status in [HERMIT](#) to determine
9 monthly collections of MIP after endorsement.

10 **(B) Reports of a Transfer or Sale**

11 The Mortgagee may confirm a transfer or sale of the HECM has been completed in
12 HERMIT by reviewing the Status of Servicer Transfer Import File in HERMIT to
13 ensure the MIP will be remitted by the correct Mortgagee.

14 **o. Post-Endorsement HECM Amendments**

15 **i. Definition**

16 A Post-Endorsement HECM Amendment refers to a change to the HECM instruments,
17 the nature of the obligation, or the security after the HECM has been insured.

18 **ii. Standard**

19 The Mortgagee must obtain HUD's approval by submitting the required documents
20 through the HERMIT System for all post-endorsement HECM amendments prior to
21 completion of the proposed change.

22 **iii. Required Documentation**

23 The Mortgagee must retain a copy of all supporting documents submitted to HUD and
24 HUD's approval or rejection of the amendment in the servicing file.

25 **iv. Types of Amendments**

26 **(A) Partial Release of Security**

27 **(1) Definition**

28 Partial Release of Security refers to a request to release a portion of the land that
29 secures the HECM. Reasons for a partial release of security may include:

- 30
 - condemnation;

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1. Servicing of FHA-Insured HECMs

- 1 • eminent domain (order of taking);
- 2 • lot line dispute or adjustment; or
- 3 • sale of a portion of the land.

4 **(2) Request Process**

5 The Mortgagee must obtain HUD approval for any partial release of security. The
6 Mortgagee must submit the following in [HERMIT](#) using the partial release of
7 security request timeline:

- 8 • a cover letter that includes:
 - 9 ○ Borrower's name;
 - 10 ○ property address;
 - 11 ○ FHA case number of Borrower;
 - 12 ○ Maximum Claim Amount (MCA);
 - 13 ○ unpaid principal balance;
 - 14 ○ detailed reason for request, including how the land to be released will
15 be used; and
 - 16 ○ Mortgagee's reason for the recommendation to accept the Borrower's
17 request;
- 18 • whether or not the HECM is in good standing;
- 19 • the amount of the outstanding principal balance;
- 20 • a complete legal description of the Property to be released;
- 21 • a complete legal description of the Property to be retained;
- 22 • the sales contract, if any, indicating monetary consideration to be received
23 by the Borrower;
- 24 • the amount of a prepayment, if any, to the HECM principal;
- 25 • any restrictions to be imposed on the land to be released;
- 26 • a survey or sketch of the Property showing:
 - 27 ○ the dimensions of the portion to be released and the portion to be
28 retained;
 - 29 ○ the location of existing and proposed improvements; and
 - 30 ○ the relation of the Property to surrounding Properties;
- 31 • plans and specifications, including Cost Estimates of any alterations
32 proposed for the remaining Property after the release;
- 33 • a valid [FHA appraisal](#) that reflects:
 - 34 ○ the value before the partial release of security; and
 - 35 ○ the value of the remaining Property after the partial release of security;
- 36 • any applicable notice of taking through eminent domain;
- 37 • copies of the first and any applicable second HECM;
- 38 • copies of the prepared partial releases for the first and any applicable
39 second HECM; and
- 40 • any other supporting documentation the Mortgagee may deem appropriate.

1 **(3) HUD Review**

2 HUD will process the request for the partial release of security and notify the
3 Mortgagee of the approval or rejection in [HERMIT](#). If the request is approved,
4 HUD will execute the partial release of security document, upload a copy into
5 HERMIT and mail the original to the Mortgagee for recording.

6 **(B) Substitution of Collateral**

7 **(1) Definition**

8 A Substitution of Collateral refers to substitution of security for the purpose of
9 removing the dwelling to a new lot or replacing the dwelling with a similar or like
10 kind on the existing lot under the following conditions:

- 11 • the Mortgagee obtains a good and valid first lien on the Property to which
12 the dwelling is removed or the existing lot upon which the dwelling is
13 rebuilt;
- 14 • all damages to the structure are repaired or all rebuilding of the structure is
15 completed without cost to FHA; and
- 16 • the Property to which the dwelling is removed or rebuilt is in an area
17 known to be reasonably free from natural hazards or, if in a flood zone, the
18 Borrower will insure or reinsure under the National Flood Insurance
19 Program (NFIP).

20 **(2) Request Process**

21 The Mortgagee, working with the Borrower and the insurance adjuster's report,
22 must determine the extent of the damage. When it has been determined that
23 substitution of a new dwelling is required, the Mortgagee must obtain HUD's
24 approval prior to completion of construction. The Mortgagee must ensure the new
25 dwelling:

- 26 • is comparable in value to the original dwelling;
- 27 • will support the original mortgage amounts; and
- 28 • will meet FHA's MPS.

29 The Mortgagee must submit a substitution of collateral request to HUD for review
30 and approval via [HERMIT](#) with a cover letter that includes:

- 31 • Borrower's name;
- 32 • property address;
- 33 • FHA case number of Borrower;
- 34 • MCA;
- 35 • unpaid principal balance;
- 36 • detailed reason for request; and
- 37 • Mortgagee's reason for the recommendation to accept the Borrower's
38 request.

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1. Servicing of FHA-Insured HECMs

1 The Mortgagee must also submit the following documentation, which may vary
2 based on the nature and degree of the damage:

- 3 • the origination appraisal;
- 4 • an appraisal of the site with proposed improvements subject to completion
5 per plans and specifications;
- 6 • verification the Borrower has sufficient construction funds to complete the
7 project;
- 8 • the Hazard Insurance Claim Report and insurance payment information;
- 9 • a scheduled completion date for the entire project;
- 10 • an elevation survey, if required by local regulations; and
- 11 • evidence of compliance with any state or local building requirements.

12 The Mortgagee may, without the prior consent of the Commissioner, accept an
13 addition to, or substitution of, the security for the purpose of removing the
14 dwelling to a new lot under the following conditions:

- 15 • the dwelling has survived an earthquake or other disaster with little
16 damage, but continued location on the Property might be hazardous;
- 17 • the Mortgagee obtains a good first lien on the Property to which the
18 dwelling is removed or the existing lot upon which the dwelling is rebuilt;
- 19 • all damages to the structure are repaired or all rebuilding of the structure is
20 completed without cost to FHA;
- 21 • the Property to which the dwelling is removed or rebuilt is in an area
22 known to be reasonably free from natural hazards or, if in a flood zone, the
23 Borrower will insure or reinsure under the NFIP; and
- 24 • immediately following the emergency removal the Mortgagee notifies
25 FHA through the HERMIT System of the reasons for removal.

26 The Mortgagee must monitor the progress of the project and ensure it is
27 completed by the scheduled date.

28 **(3) HUD Review**

29 HUD will process the request for substitution of collateral and notify the
30 Mortgagee of the approval or rejection by email. In addition, HUD will upload all
31 related documentation received in [HERMIT](#). HUD's appraisal review may have
32 recommendations that must be met prior to the approval of the substitution of
33 collateral. These recommendations, which will be stated in HUD's response to the
34 request, may include:

- 35 • that the old structure is demolished and/or removed from the site; and
- 36 • a final inspection of the completed project be provided.

1 **(C) Consent of Lienholder**

2 **(1) Definition**

3 Consent of Lienholder refers to the approval of all lienholders to allow for an
4 Easement on the Property that does not diminish the appraised value of the land
5 secured by the HECM. If land is taken, the owner should be compensated and a
6 partial release should be done. Easements may be for:

- 7 • aviation or avigation;
- 8 • oil and gas leases;
- 9 • driveways;
- 10 • subdivision consent;
- 11 • consent to change in covenants and restrictions; or
- 12 • municipalities to allow for drainage or access where no actual land is
13 taken.

14 **(2) Request Process**

15 The Mortgagee must submit a request in [HERMIT](#) using the consent of lienholder
16 timeline, providing the following documentation:

- 17 • a cover letter that includes:
 - 18 ○ Borrower's name;
 - 19 ○ property address;
 - 20 ○ FHA case number of Borrower;
 - 21 ○ MCA;
 - 22 ○ unpaid principal balance; and
 - 23 ○ detailed reason for request;
- 24 • a copy of the origination appraisal;
- 25 • a copy of the oil and gas lease contract, proposed easement, or other
26 written agreement;
- 27 • copies of the recorded first and any applicable second HECM security
28 instrument which includes the legal description;
- 29 • survey or plot plan showing proposed Easement, if applicable; and
- 30 • documents for which approval and signature is requested for first and any
31 applicable second HECMs.

32 **(3) HUD Review**

33 HUD will process the request for the consent of lienholder and notify the
34 Mortgagee of the approval or rejection in [HERMIT](#). If the request is approved,
35 HUD will execute the consent of lienholder document, upload a copy into
36 [HERMIT](#), and mail the original to the Mortgagee for recording.

1 **(D) Subordination Agreement**

2 **(1) Definition**

3 Subordination Agreement refers to an action necessary to correct the recordation
4 order when the second HECM has been inadvertently recorded before the first.
5 Recording a Subordination Agreement for the second HECM must result in the
6 Mortgagee's HECM lien being a first mortgage lien.

7 **(2) Request Process**

8 The Mortgagee must submit a request for a Subordination Agreement in [HERMIT](#)
9 using the Subordination timeline, providing the following documentation:

- 10 • copies of the recorded first and second HECM; and
- 11 • a prepared Subordination Agreement for HUD's execution.

12 **(3) HUD Review**

13 HUD will process the subordination request and notify the Mortgagee of the
14 approval or rejection in [HERMIT](#). If the request is approved, HUD will execute
15 the Subordination Agreement, upload a copy into HERMIT, and mail the original
16 to the Mortgagee for recording.

17 **p. Occupancy Certification**

18 **i. Standard**

19 **(A) Annual Occupancy Certification**

20 The Mortgagee must provide the Borrower a written certification annually, for the
21 Borrower's signature, that certifies the Borrower occupies the HECM Property as
22 their Principal Residence. The Mortgagee must provide the certification to the
23 Borrower within 30 Days before or after the anniversary date of the first Day of the
24 first month after closing. The Mortgagee must verify occupancy for the life of the
25 HECM.

26 The certification must include the following warning above the signature line:

27 *WARNING: Section 1001 of Title 18 of the United States Code makes it a criminal*
28 *offense to make a willfully false statement or misrepresentation to any department*
29 *or agency of the United States government as to any matter within its jurisdiction.*

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1 **(B) Temporary Absences**

2 The Mortgagee must advise the Borrower to notify the Mortgagee of absences from
3 the Property in excess of two months to avoid determinations that the Borrower's
4 Principal Residence has changed.

5 The Mortgagee must proceed in accordance with [Due and Payable](#) guidance in the
6 event the Borrower fails to comply with the HECM provisions.

7 **(C) Eligible Non-Borrowing Spouse Annual Certification**

8 Borrowers that identified themselves as being married with an Eligible NBS at
9 origination must submit the additional certification completed at closing on an annual
10 basis. Upon the death of the last surviving Borrower, the Mortgagee must comply
11 with the requirements for a [Deferral Period](#).

12 In the event of a divorce between a HECM Borrower and the NBS, Mortgagees are
13 required to obtain a copy of the final divorce decree. Such NBS is no longer eligible
14 for a Deferral Period and the Mortgagee is no longer required to have such HECM
15 Borrower or the former spouse satisfy the NBS certification requirements.

16 **ii. Required Documentation**

17 The Mortgagee must upload into HERMIT and retain in the servicing file copies of all:
18 • annual certification documents; and
19 • documentation of Borrowers' absences from the Property.

20 **q. Property Maintenance**

21 **i. Standard**

22 Upon becoming aware of a deterioration in the Property's condition, the Mortgagee must
23 notify the Borrower of the deficiency and provide the Borrower 60 Days to begin to
24 correct the condition of the Property. The Mortgagee must continue to monitor the
25 Property's condition until repairs are completed.

26 If the Borrower fails to begin to correct the condition of the Property within 60 Days or
27 if the Borrower fails to make satisfactory progress toward repairing the Property, the
28 Mortgagee must proceed in accordance with [Due and Payable](#) guidance.

29 **ii. Required Documentation**

30 The Mortgagee must upload into HERMIT and retain in the servicing file copies of all:
31 • notices of deterioration of property condition;
32 • notices to the Borrower to correct property condition deficiencies; and

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- 1 • property inspections and photos conducted in addressing the deteriorated
2 Property.

3 **r. Optional Assignment**

4 **i. Definitions**

5 Assignment refers to a Mortgagee’s right to assign the HECM to HUD when the
6 outstanding balance is equal to or greater than 98 percent of the MCA, or when the
7 Borrower has requested a payment that will cause the outstanding balance to equal or
8 exceed 100 percent of the MCA.

9 Mortgagee-Funded Cure refers to the use of the Mortgagee’s corporate funds to cure a
10 Borrower’s outstanding property taxes and/or insurance payments, which cannot be
11 added to the outstanding HECM balance and cannot be added to any future claim for
12 FHA insurance benefits.

13 Mortgagee Optional Election (MOE) Assignment refers to an assignment option available
14 to Mortgagees for cases where an FHA case number was assigned prior to August 4,
15 2014 and is associated with an Eligible Surviving NBS.

16 **ii. Standard**

17 In preparing to assign the HECM, the Mortgagee must:

- 18 • provide a written notice to the Borrower of intent to assign the HECM to HUD;
19 • notify HUD of intent to assign by submitting an assignment request through
20 [HERMIT](#); and
21 • disburse to the Borrower any remaining funds withheld for Hazard Insurance.

22 Technical assistance for initiating and submitting a Claim Type 22 assignment request is
23 available in the [HERMIT User Guide](#).

24 If the HECM is assigned to the Secretary, or if payments are made through a second
25 HECM under the demand assignment process, the Secretary is not required to assume
26 responsibility for property charge payments, but will continue to administer payment of
27 taxes for Borrowers from any funds available in an applicable Fully Funded LESA.

28 **(A) Notice to the Borrower**

29 The written notice must state:

- 30 • the anticipated date of assignment;
31 • instructions to the Borrower for making requests for unscheduled or line-of-
32 credit payments to HUD after the assignment date;
33 • that, if applicable, taxes will continue to be paid from a Property Charge Set-
34 Aside or available LESA funds after assignment;

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- that after assignment the Borrower is responsible for payment of taxes where there is no Property Charge Set-Aside or available LESA funds; and
- that after assignment the Borrower is responsible for maintaining and paying for Hazard Insurance, regardless of any funds remaining in a Property Charge Set-Aside or Fully Funded LESA.

(B) Eligibility Criteria

Prior to assigning a HECM, the Mortgagee must:

- be current in its payment of the MIP, including Late Charges and interest on the MIP, as applicable;
- have a good right to assign;
- ensure any repairs related to a hazard and/or flood insurance loss have been completed and any insurance proceeds have been disbursed appropriately; and
- ensure the Mortgagee has not signed an indemnification agreement for the HECM with HUD.

The Mortgagee must also ensure the HECM:

- has no outstanding Property Charge-related corporate advances;
- is not subject to a Repayment Plan;
- has not been the subject of a mortgagee-funded cure within the last three years, during which time no corporate advances were required;
- is a valid, legally enforceable first lien;
- is secured by the Property with good and marketable title;
- has no offsets or counterclaims;
- is reflected in [HERMIT](#) with a case status of “Endorsed” and a sub-status of “Loan Active”;
- is reflected in HERMIT with the correct Lender, Investor, and Loan Number; and
- if subject to a tax deferral program in which the Borrower participated, the program does not and will not:
 - adversely affect the lien priority of the HECM; or
 - result in a requirement that HUD pay the Borrower’s deferred taxes upon the Borrower’s death or any other maturity event.

(C) Additional Criteria

In addition to all basic eligibility criteria, the Mortgagee must ensure that additional eligibility criteria are met on a case-by-case basis.

(1) Cases Not Involving an Eligible Non-Borrowing Spouse

For cases not involving an Eligible NBS, the Mortgagee must be current in making the required payments under the HECM to the Borrower. Additionally, the Mortgagee must ensure:

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1. Servicing of FHA-Insured HECMs

- the Borrower’s obligations under the HECM are current;
- HUD has not been informed of a Due and Payable event, or HUD has been so informed but has denied due and payable approval for the HECM; and
- the outstanding HECM balance is greater than or equal to 97.5 percent of the MCA unless HUD has approved a line-of-credit advance request that would cause the outstanding balance to exceed 100 percent of the MCA.

Assignment approval will not be granted until the outstanding HECM balance is greater than or equal to 98 percent of the MCA.

(2) Cases Involving an Eligible Non-Borrowing Spouse and Assigned an FHA Case Number on or after August 4, 2014

For cases that involve an Eligible NBS with an FHA case number assigned on or after August 4, 2014, where the HECM is not within a Deferral Period, the Mortgagee must be current in making the required payments under the HECM to the Borrower. Additionally, the Mortgagee must ensure:

- the Borrower’s obligations under the HECM are current;
- HUD has not been informed of a Due and Payable event, other than in the case of the death of the last surviving Borrower or non-occupancy of a Borrower because the Borrower has resided in a health care facility for more than 12 consecutive months, or HUD has been so informed but has denied due and payable approval for the HECM;
- all required certifications have been obtained; and
- the outstanding HECM balance is greater than or equal to 97.5 percent of the MCA.

Assignment approval will not be granted until the outstanding HECM balance is greater than or equal to 98 percent of the MCA.

(3) Cases Involving an Eligible Non-Borrowing Spouse and Assigned an FHA Case Number Before August 4, 2014

For cases involving an Eligible Surviving NBS with an FHA case number assigned prior to August 4, 2014, if a Mortgagee does not elect to utilize the MOE Assignment upon the death of the last surviving Borrower or determines that a HECM is ineligible for MOE Assignment, the Mortgagee must notify HUD through [HERMIT](#) that the HECM has become Due and Payable. The Mortgagee must commence foreclosure within the established [foreclosure time frames](#).

Where the HECM will be assigned to HUD using the [MOE Assignment](#), the Mortgagee must ensure:

- the Secretary has not been informed of a Due and Payable event, other than in the case of the death of the last surviving Borrower or non-

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1 occupancy of a Borrower because the Borrower has resided in a health
2 care facility for more than 12 consecutive months, or the Secretary has
3 been so informed but has denied due and payable approval for the HECM;

- 4 • the HECM remains a valid and legally enforceable first lien under state
5 law and no statute of limitations or other barrier exists to the exercising of
6 rights to gain good, marketable title under the HECM, which may include
7 a modification to the HECM, if needed; and
- 8 • there are no allegations or claims that would invalidate the HECM or any
9 such allegations or claims have been judicially resolved in favor of the
10 Mortgagee.

11 **iii. Required Documentation**

12 The Mortgagee must submit each of the following documentation packages in support of
13 their Claim Type 22 assignment request:

- 14 • compliance package;
- 15 • collateral package; and
- 16 • servicing package.

17 For a HECM being assigned in accordance with MOE, the Mortgagee must also submit a
18 MOE Assignment package.

19 The Mortgagee must submit the documentation packages using [HERMIT](#) under the
20 appropriate Claim Type 22 “timeline step.” Technical assistance for initiating and
21 submitting a Claim Type 22 assignment request is available in the [HERMIT User Guide](#).

22 HUD will only review complete Claim Type 22 assignment requests. Incomplete
23 requests, including those with missing documentation or those for which the
24 documentation has not been stacked in the order identified below, will be denied. In such
25 cases, the Mortgagee will receive a denial letter in HERMIT that advises the Mortgagee
26 of the reason for denial and identifies the required documentation that was missing or
27 filed improperly. The Mortgagee must re-file a complete Claim Type 22 assignment
28 request if it chooses to proceed with its request.

29 **(A) Compliance Package**

30 The compliance package includes the items listed below which must be stacked in the
31 following order:

- 32 1. cover letter, which includes the FHA case number, Borrower’s name, property
33 address (and mailing address, if different from the property address), and
34 telephone number;
- 35 2. payment method, if paid via Automated Clearing House (ACH), which must
36 include the ACH information and indicate if the ACH account is a checking
37 account or savings account;

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- 1 3. property tax statements or screenshots from official websites confirming all
- 2 taxes are current as of the date of assignment;
- 3 4. if the Borrower is participating in an approved tax deferral program, evidence
- 4 of the terms of the deferral from the taxing authority confirming that the
- 5 deferral does not jeopardize HUD's lien position;
- 6 5. payment plan that must be signed by the Borrower and must coincide with the
- 7 current "Active" payment plan status in HERMIT;
- 8 6. copy of the Notice of Assignment letter sent to the Borrower;
- 9 7. payment history from the Mortgagee's system through the current month and
- 10 including the current NPL;
- 11 8. annual Occupancy Certification signed by the HECM Borrower;
- 12 9. current hazard insurance declaration page, or a document from the hazard
- 13 insurance provider on its letterhead that contains:
- 14 a. Name of the insured
- 15 b. Address of insured property
- 16 c. Type of coverage
- 17 d. Insurance policy number
- 18 e. Insurance policy limits
- 19 f. Effective date of the insurance policy
- 20 g. Expiration date of the insurance policy
- 21 h. Name and contact information for the insurer and
- 22 i. Annual insurance premium;
- 23 10. current flood insurance declaration page, if applicable;
- 24 11. evidence that any repairs related to a hazard or flood insurance loss have been
- 25 completed and the insurance proceeds disbursed appropriately, if applicable;
- 26 12. POA, life estate deed, trust, or conservator documents if applicable;
- 27 13. name, address, and contact number for any applicable HOA or Condominium
- 28 Association, along with evidence all such HOA or Condominium Fees are
- 29 current;
- 30 14. copy of any applicable form HUD-92051 or FNMA Form-1004D for
- 31 completion of required repairs prior to December 31, 2018 and confirmation
- 32 that the Repair Set-Aside balance is zero;
- 33 15. if applicable, death certificate or alternative evidence of the death;
- 34 16. where the HECM has a line of credit or modified payment plan and has a
- 35 negative NPL, an explanation as to why the NPL is negative and whether the
- 36 Borrower(s) is on a Repayment Plan. The Mortgagee must ensure that any
- 37 negative NPL is not the result of a payment made on the Borrower's behalf for
- 38 Property Charges, which may make the HECM Due and Payable and
- 39 therefore, ineligible for assignment;
- 40 17. documentation outlining the Borrower's participation in, and any remaining
- 41 funds from, a Hardest Hit Fund (HHF) program of any kind, if applicable;
- 42 18. all certifications related to an NBS required specifically for HECMs
- 43 originated on or after August 4, 2014, or those specifically required for
- 44 [HECMs originated prior to August 4, 2014](#) and being assigned under a MOE
- 45 Assignment;

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- 1 19. certification that the Mortgage is not subject to an indemnification agreement
2 entered into by the Mortgagee assigning the HECM; and
3 20. a detailed explanation of all pre-Due and Payable corporate advances, if any.
4 The explanation must include the date of the disbursement, the expense that
5 was paid and any information relating to repayment received.

6 **(B) Collateral Package**

7 The collateral package must include the items listed below in the following order:

- 8 1. original Note;
9 2. recorded first Mortgage and addendums, if applicable;
10 3. Subordination Agreement, if applicable;
11 4. evidence that the mobile home title has been retired, if applicable;
12 5. all recorded intervening assignments;
13 6. proposed assignment to HUD, which does not need to be signed and
14 notarized; and
15 7. title policy which must include the language “its successors and/or assigns”
16 after the Mortgagee’s name. Title commitments are not acceptable.

17 **(C) Servicing Package**

18 The servicing package must include the items listed below in the following order:

- 19 1. second Note, if applicable;
20 2. recorded second Mortgage and addendums, if applicable;
21 3. loan application and addendums;
22 4. complete loan agreement, including all exhibits;
23 5. complete origination appraisal and any subsequent appraisals obtained, if
24 applicable;
25 6. current flood certificate, if Property lies in a flood zone;
26 7. Closing Disclosure; and
27 8. name affidavit, if applicable.

28 **(D) MOE Assignment Package**

29 Where applicable, the MOE Assignment package must include the items listed below
30 in the following order:

- 31 1. Borrower’s death certificate, if applicable;
32 2. evidence of Borrower’s residence in health care facility for more than 12
33 consecutive months, if applicable;
34 3. copy of HECM Borrower and Eligible Surviving NBS’s marriage certificate,
35 legal opinion certifying the validity of the marriage, or other evidence
36 sufficient to establish the legal validity of the marriage;
37 4. affirmation that no allegations which would invalidate the HECM exists or, if
38 there were allegations, evidence of the judicial resolution documenting a
39 finding in favor of the Mortgagee;

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- 1 5. a signed Mortgagee certification that the HECM lien is a valid, legally
- 2 enforceable first lien; and
- 3 6. a signed Eligible Surviving NBS certification as provided in the [MOE](#)
- 4 [Assignment](#) section.

iv. Preliminary Review by HUD

6 HUD will review the Mortgagee's Claim Type 22 assignment request and if approved,
7 the Mortgagee will receive notification of the decision in HERMIT with instructions on
8 how to proceed.

v. Completing the Assignment Process

10 Within 60 calendar days from receiving preliminary approval from HUD, the Mortgagee
11 must send the items listed below to HUD's Loan Servicing Contractor and complete the
12 Claim Type 22 Assignment Claim timeline steps in [HERMIT](#):

- 13 • the endorsed, original first Note;
- 14 • the original first Mortgage/deed of trust;
- 15 • a check made payable to HUD for any funds remaining from the HHF program, if
- 16 applicable; and
- 17 • a manifest identifying the FHA case number(s) and all documents enclosed in the
- 18 shipping package.

19 After HUD's Loan Servicing Contractor acknowledges receipt of the above-referenced
20 documents in HERMIT, the Mortgagee must submit the assignment for recordation. Only
21 after submitting the assignment for recordation may the Mortgagee complete its claim in
22 HERMIT. Successfully filing the Claim Type 22 will complete the transfer of servicing
23 to HUD.

24 The Mortgagee must forward the recorded assignment to HUD's Loan Servicing
25 Contractor as soon as it is received by the Mortgagee, but in no case more than 12 months
26 after recordation. After HUD's Loan Servicing Contractor acknowledges receipt of the
27 recorded assignment in HERMIT, the Mortgagee will receive a final title approval letter
28 confirming receipt in HERMIT.

29 If the recorded assignment is not received within 12 months of claim payment, the
30 Mortgagee will be responsible for repurchasing the HECM from HUD and may be
31 referred to the appropriate office(s) for sanctioning.

vi. Servicing Responsibilities for a Pending Assignment

33 A HECM assignment is not complete until the Mortgagee:

- 34 • receives approval from HUD to assign the HECM;
- 35 • sends the assignment for recording; and
- 36 • successfully files the Claim Type 22 for insurance benefits, which completes the
- 37 transfer of servicing to HUD.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

1 Until a HECM assignment is complete, the Mortgagee must continue to service the
2 HECM, make all scheduled payments, and make all unscheduled payments that will not
3 result in the HECM balance exceeding 100 percent of the MCA.

4 When an unscheduled payment to a HECM Borrower would cause the HECM balance to
5 exceed 100 percent of the MCA, the Mortgagee may request that HUD make the
6 unscheduled payment. Such requests must be submitted to HUD within three business
7 days of the Mortgagee’s receipt of the Borrower’s request. The Mortgagee must pay any
8 penalties and interest due to the Borrower if the Mortgagee does not submit the request to
9 HUD within three business days of receipt of the Borrower’s request.

10 **(A) HUD Advances**

11 In cases where HUD advances funds to the Borrower on the Mortgagee’s behalf, the
12 Mortgagee must initiate a Claim Type 22 assignment request within 30 Days of the
13 HUD advance.

14 **(B) Failure to Initiate Assignment**

15 If the Mortgagee fails to initiate such a request within the allotted time frame, a
16 “Repayment” task will be generated in [HERMIT](#) and the Mortgagee must reimburse
17 HUD for the amount of the advance plus any accruals added to the HECM balance
18 through the date the Mortgagee authorizes repayment in HERMIT. Such
19 reimbursement must be completed in HERMIT within 30 Days of the “Repayment”
20 task being generated. The Mortgagee should refer to the [HERMIT User Guide](#) for
21 technical instructions on completing such actions.

22 **(C) Denied Assignment Requests**

23 If the Mortgagee’s Claim Type 22 assignment request is denied, the Mortgagee must
24 reimburse HUD for the amount of the advance plus any accruals added to the HECM
25 balance through the date the Mortgagee authorizes repayment in HERMIT. Such
26 reimbursement must be completed in [HERMIT](#) within 30 Days of the date of the
27 denial. Technical instructions on completing actions in HERMIT are found in the
28 [HERMIT User Guide](#).

29 **(D) Failure to Reimburse HUD**

30 Mortgagees who fail to reimburse HUD within the allotted time frames may be
31 referred to HUD’s Office of Program Enforcement and/or the Mortgagee Review
32 Board (MRB).

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

s. Demand Assignment

i. Definition

Demand Assignment refers to an assignment option where the Mortgagee chooses to assign a HECM, or a portfolio of HECMs, because the Mortgagee is unable or unwilling to reimburse HUD for payments to the Borrower made by HUD.

ii. Standard

For cases involving a Mortgagee that fails to make payments to the Borrower, HUD may demand assignment. If the Borrower notifies HUD that a payment was not received and HUD determines that the Mortgagee cannot or will not make the required payment, HUD will make the payment and proceed with communicating to the Mortgagee that a demand assignment could occur.

After HUD makes the necessary payment, HUD may issue a written Demand Letter to the Mortgagee, requiring the Mortgagee to:

- resume making payments under the HECM; and
- reimburse HUD for the amount of the total payment, with interest from the date of the payment to the date reimbursement is received by HUD.

HUD will specify an amount, date of payment, and a per diem interest rate, set in conformance with the [Treasury Financial Manual](#).

If the Mortgagee is unable or unwilling to reimburse HUD or resume making payments under the HECM, the Mortgagee may:

- submit an assignment request, in accordance with the [Optional Assignment](#) requirements, to HUD within 30 Days;
- limit the Borrower's liability to payments actually made to or on behalf of the Borrower and the MIP remitted on the HECM; and
- exclude any interest accrued on the HECM from the Borrower's liability.

If the Mortgagee fails to reimburse HUD or assign the HECM within 30 Days of the Demand Letter, the contract of HECM insurance will be terminated.

If the contract of insurance is terminated, all payments made by HUD will be secured by the second HECM lien.

iii. Required Documentation

The Mortgagee must follow the documentation instructions for [Optional Assignments](#).

1 **t. Repurchase of Previously Assigned HECM**

2 **i. Definition**

3 Repurchase refers to HUD’s requirement that the HECM be returned to the Mortgagee
4 who assigned it due to the discovery of the Mortgagee’s noncompliance with the
5 regulations, which allowed a condition to exist that would have made the HECM
6 unassignable.

7 **ii. Standard**

8 The Mortgagee must repurchase a HECM upon notification from HUD if any of the
9 following conditions of noncompliance occurred at or prior to the time of assignment:

- 10 • a title defect discovered in relation to preparations for a foreclosure or Deed-In-
11 Lieu (DIL) after assignment or after HUD acquired the Property through
12 foreclosure; or
- 13 • an occurrence of a Due and Payable event of which HUD was not made aware.

14 **(A) Initiating the Repurchase Process**

15 HUD initiates a repurchase using the repurchase timeline in [HERMIT](#). HUD will
16 provide a repurchase notification to the Mortgagee.

17 **(1) Curable Defects**

18 HUD will provide the Mortgagee with a pre-repurchase letter, detailing the defect
19 and allowing up to 30 Days to cure.

20 The Mortgagee must take the appropriate action to correct a defect if curable and
21 provide HUD with supporting documentation of such correction. The Mortgagee
22 may request a maximum of three 30-Day extensions. The Mortgagee must submit
23 any request for extension through the HERMIT System.

24 HUD will cancel the repurchase timeline if the Mortgagee cures the defect within
25 the 30-Day period or any extension period approved by HUD.

26 **(2) Incurable Defects**

27 The Mortgagee must proceed with the repurchase within 30 Days of receipt of
28 HUD’s repurchase notification where:

- 29 • a title defect exists that cannot be corrected; or
- 30 • the repurchase involves a HECM that was eligible to be Due and Payable
31 when it was assigned.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

(B) Completing the Repurchase Process

If the repurchase defect is incurable or the Mortgagee fails to cure the defect before the pre-repurchase period has expired, the Mortgagee must authorize HUD to draft the applicable funds from the Mortgagee's specified account. The Mortgagee must complete this action in [HERMIT](#) within 30 Days of the date HUD created the repurchase timeline or the expiration of the pre-repurchase period, if applicable.

The Mortgagee must prepare one of the following documents for HUD's execution:

- an assignment transferring the HECM from HUD to the Mortgagee; or
- a deed reconveying the Property for which HUD holds title to the Mortgagee.

Upon receipt of the executed document from HUD, the Mortgagee must have the document recorded.

The Mortgagee must reimburse HUD for all expenses incurred in connection with the acquisition and reassignment or reconveyance. The reimbursement must include:

- interest on the amount of the insurance benefits refunded by the Mortgagee from the date the claim was paid to the date of the refund at an interest rate set in accordance with the [Treasury Financial Manual](#); and
- HUD's cost of holding the Property and servicing the HECM, accruing on a daily basis, from the date of assignment to the date of reassignment.

HUD's costs are based on its estimate of the taxes, maintenance, and operating expenses. Appropriate adjustments will be made by HUD for any income received from the Property, if applicable.

iii. Required Documentation

The Mortgagee must send the Borrower and upload in [HERMIT](#) a notification that the HECM has been transferred back to the Mortgagee.

iv. Subsequent Application for Insurance Benefits

The Mortgagee may reapply for insurance benefits at a subsequent date. The Mortgagee will not be reimbursed for any expenses incurred in connection with the Property after it has been reconveyed or the HECM reassigned, or paid any debenture interest accrued after the date of initial conveyance. Any reduction in HUD's estimate of the value of the Property occurring from the time of reconveyance to the time of reapplication will be deducted from the insurance benefits.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

u. Mortgage Insurance Termination

i. Definition

A Mortgage Insurance Termination refers to the ending of FHA mortgage insurance, at which time all rights of the Mortgagee shall terminate, including the right to file a claim for insurance benefits, and all obligations of HUD cease immediately.

ii. Standard

(A) Termination of Mortgage Insurance

The Mortgagee may terminate the FHA insurance contract when the HERMIT case status is Endorsed and one of the following events has occurred:

- Prepayment in Full, including sale of the Property by the Borrower or other authorized party, or a HECM-to-HECM Refinance;
- acquisition of title through DIL by the Mortgagee or other party at a foreclosure sale, and no insurance claim will be submitted to HUD; or
- acquisition of title by the Mortgagee through a DIL or foreclosure, or the Property is sold by the Borrower or other authorized party for less than the full payoff, and a claim for insurance will not be submitted.

The Mortgagee must report termination of a HECM to HUD by initiating a Termination transaction via [HERMIT](#) within 15 Days of a payoff. Where the termination will result in submission of a claim, the claim serves as notice of termination. Claims must be submitted based on the date the FHA case number was assigned, as follows:

- before September 19, 2017, within 15 Days of the Property being sold; or
- on or after September 19, 2017, within 30 Days of the Property being sold.

(B) Voluntary Termination of Mortgage Insurance

(1) Definition

A Voluntary Termination of Mortgage Insurance refers to a mutual agreement between the Borrower and the Mortgagee to terminate FHA mortgage insurance.

(2) Standard

The Borrower and the Mortgagee may agree to voluntarily terminate FHA mortgage insurance at any time.

(a) Borrower's Consent to Voluntary Termination

The Mortgagee must obtain a signed Borrower's Consent to Voluntary Termination of FHA Mortgage Insurance from each Borrower. The form must

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

1 be on the Mortgagee's letterhead and must follow the format found in the
2 [model document](#).

3 (b) Reporting a Voluntary Termination

4 To report a voluntary termination, the Mortgagee must initiate a Termination
5 transaction via [HERMIT](#) within 15 Days of receiving the executed Borrower's
6 consent form.

7 (C) Effective Date of Termination

8 (1) Standard

9 The effective date of termination of the contract of insurance is the date on which
10 one of the following occurs:

- 11 • the Mortgagee has received notice from HUD that it approves the
- 12 voluntary Termination transaction;
- 13 • the Mortgagee has notified HUD that the HECM was prepaid;
- 14 • the Property was acquired by another party and the Mortgagee notifies the
- 15 Commissioner that a claim will not be filed.
- 16 • If the Mortgagee fails to make the payments to the Borrower

17 Where the Mortgagee acquires the Property through a foreclosure sale or DIL, the
18 effective date of termination of the contract of insurance is the date on which a
19 claim for insurance benefits is settled.

20 (2) Required Documentation

21 The Mortgagee must note in the servicing file and initiate the termination
22 transaction in [HERMIT](#) on the date on which the:

- 23 • voluntary termination request is received;
- 24 • HECM was prepaid; or
- 25 • Property was acquired by another party at a foreclosure sale and the
- 26 Mortgagee determines that a claim will not be filed.

27 If the Mortgagee wishes to submit a claim for insurance benefits, such claim must
28 be submitted via HERMIT after selling a Property acquired through foreclosure
29 sale or DIL. See the [Due and Payable Servicing](#) section for further information.

30 (D) Termination of MIP Payments

31 The Mortgagee must pay MIP due through the effective date of termination for
32 HECMs paid in full or where the Mortgagee or other party acquires the Property
33 through sale, DIL, or foreclosure sale and no claim for insurance benefits will be
34 submitted.

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

1. Servicing of FHA-Insured HECMs

1 Where the termination will result in submission of a claim, the Mortgagee must pay
2 the MIP due based on the date the FHA case number was assigned, as follows:

- 3 • before September 19, 2017, until the claim for insurance benefits is paid; or
- 4 • on or after September 19, 2017, until the date of the foreclosure sale, the date
5 the DIL is recorded or the date a sale by the Borrower or authorized party is
6 completed.

7 v. Record Retention – Servicing File

8 i. Definition

9 The Servicing File refers to the Mortgagee’s record of all servicing activity on an FHA-
10 insured HECM.

11 ii. Standard

12 The Mortgagee must retain all servicing files for a minimum of three years after the
13 transfer or sale of the HECM or termination of mortgage insurance. The Mortgagee must
14 maintain accurate records for each HECM serviced. In addition to the specific
15 documentation requirements stated in this Handbook 4000.1, these records must include
16 the following information:

- 17 • HECM origination and endorsement documentation, including copies of the
18 following documents, if applicable:
 - 19 ○ *Conditional Commitment Direct Endorsement Statement of Appraised Value*
 - 20 ○ *Firm Commitment*;
 - 21 ○ HECM loan agreement and exhibits;
 - 22 ○ [Fannie Mae Form 1009](#), *Residential Loan Application for Reverse Mortgages*
23 *(RLARM)*, and [Fannie Mae Form 1003/Freddie Mac Form 65](#), *Uniform*
24 *Residential Loan Application (URLA)*;
 - 25 ○ Financial Assessment Worksheet; and
 - 26 ○ Mortgage Insurance Certificate (MIC);
- 27 • MIP payments made;
- 28 • documentation related to any recovery of hazard insurance proceeds; and
- 29 • the FHA-insured HECMs in the Mortgagee’s portfolio and information on which
30 HECMs have been acquired, sold, paid in full, and voluntarily terminated.

31 The Mortgagee must also retain, in electronic and hard copy, the Mortgage, mortgage
32 Note, deed of trust, or a lost note affidavit acceptable under state law, with the electronic
33 copy marked “copy.”

34 Where a claim is filed, the Mortgagee must retain documentation in compliance with the
35 Claim Review File section for at least seven years after the final claim or latest
36 supplemental claim settlement date.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 iii. Record Reconciliations

2 HUD may require the Mortgagee to provide information evidencing reconciliation of
3 Mortgage records with HUD. This information may include identification, by HECM, of
4 the following:

- 5 • amount of MIP due and paid to HUD by time period for each insured HECM;
- 6 • date insurance was terminated or servicing transferred, if applicable; and
- 7 • date servicing was acquired, for HECMs acquired.

8 The Mortgagee must ensure that HUD's records accurately reflect the status of the
9 HECM and both the correct Holder and Servicer of record.

10 iv. Electronic Storage

11 Where retention of a hard copy or original document is not required, the Mortgagee may
12 use electronic storage methods for all servicing-related documents required in accordance
13 with HUD regulations, handbooks, Mortgagee Letters, and notices.

14 Regardless, the Mortgagee must be able to make available to HUD in the format
15 (electronic or hard copy) requested legible documents within 24 hours of a request or as
16 otherwise prescribed by HUD.

17 2. Default Servicing

18 a. Use of Counseling Agencies

19 The Mortgagee must refer the Borrower to a HUD-approved housing counseling agency in
20 the area where the Property is located where obligations under the HECM are not being met
21 by the Borrower. The Mortgagee should refer the Borrower to a counseling agency before
22 submitting a due and payable request.

23 b. Due and Payable Servicing

24 i. Standard

25 (A) Due and Payable with HUD's Approval

26 A HECM is eligible for Due and Payable status with HUD's approval if one of the
27 following conditions applies:

- 28 • no surviving Borrower maintains the Property as their Principal Residence;
- 29 • a Borrower fails to occupy the Property for a period of more than 12
30 consecutive months because of physical or mental illness and the Property is
31 not the Principal Residence of at least one other Borrower; or
- 32 • an obligation of the Borrower under the HECM is not fulfilled.

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 In such cases, the Mortgagee must submit a Due and Payable request to HUD through
2 [HERMIT](#) within 30 Days of a HECM becoming eligible for Due and Payable status.

3 **Required Documentation**

4 Mortgagees must upload into [HERMIT](#) sufficient documentation to support the stated
5 reason for request for HUD approval to call the loan Due and Payable. This
6 documentation must be specific to the stated due and payable reason and must be an
7 original source of information, such as documentation from a taxing authority that
8 property taxes are delinquent or a policy termination letter from an insurance carrier.

9 **(B) Automatic Due and Payable Events**

10 A HECM becomes automatically Due and Payable, if one of the following conditions
11 applies:

- 12 • for case numbers assigned before August 4, 2014:
 - 13 ○ a Borrower died and the Property is no longer the Principal Residence of
 - 14 at least one surviving Borrower;
 - 15 ○ a Borrower conveyed all of their title in the mortgaged Property and no
 - 16 other Borrower retains title to the Property; or
 - 17 ○ where the Mortgagee elects to pursue a MOE Assignment, the Mortgagee
 - 18 determines the NBS or HECM is ineligible for such assignment, thus
 - 19 ending the Deferral Period; or
- 20 • for case numbers assigned on or after August 4, 2014:
 - 21 ○ a Borrower died, the Property is no longer the Principal Residence of at
 - 22 least one surviving Borrower, and there is no applicable Deferral Period;
 - 23 ○ a Borrower conveys all of their title in the mortgaged Property and no
 - 24 other Borrower retains title to the Property; or
 - 25 ○ the Deferral Period for an Eligible NBS ends.

26 **ii. Deferral Periods for an Eligible Non-Borrowing Spouse**

27 In the event the last surviving Borrower predeceases an NBS, a Deferral Period may be
28 provided for the Due and Payable status where the NBS meets all the [Qualifying](#)
29 [Attributes](#) and all other HUD requirements herein.

30 **(A) Deferral Period Requirements**

31 **(1) Case Numbers Assigned before August 4, 2014**

32 Where the Mortgagee elects to pursue a MOE Assignment, the HECM will enter a
33 Deferral Period while the Mortgagee completes the required [MOE Assessment](#). If
34 the Mortgagee determines the HECM and the NBS meet all of the requirements
35 for a MOE Assignment, the HECM may be assigned to HUD and HUD will
36 administer the Deferral Period. If the Mortgagee determines the HECM or the
37 NBS do not meet all of the requirements for a MOE Assignment, the Deferral

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 Period ends and the Mortgagee must proceed with calling the HECM Due and
2 Payable without HUD's approval.

3 (2) Case Numbers Assigned on or after August 4, 2014

4 Where an Eligible NBS was identified at origination, and [remained an Eligible](#)
5 [NBS](#) throughout the Borrower's lifetime, the HECM will automatically enter a
6 Deferral Period when the Mortgagee enters the date of the last surviving HECM
7 Borrower's death in [HERMIT](#).

8 To continue this Deferral Period, the Mortgagee must ensure the NBS satisfies,
9 and continues to satisfy, the following Qualifying Attributes:

- 10 • ensure all other obligations of the HECM Borrower continue to be
11 satisfied; and
- 12 • ensure that the HECM does not become eligible to be called Due and
13 Payable for any reason other than:
 - 14 ○ the death of the last surviving Borrower; or
 - 15 ○ the Borrower's residence in a health care facility for longer than 12
16 consecutive months.

17 If at any time, the NBS fails to meet any of the Qualifying Attributes or any of the
18 requirements for deferral cease to be met, the Deferral Period ends and the
19 Mortgagee must proceed with calling the HECM Due and Payable without
20 HUD's approval.

21 (B) Required Documentation

22 During a Deferral Period, the Mortgagee must upload copies of the following
23 documents into [HERMIT](#):

- 24 • all applicable [Due and Payable notifications](#); and
- 25 • all required annual [NBS certifications](#).

26 (C) Required Due and Payable Notification to HUD

27 The Mortgagee must notify HUD within 30 Days of determining a HECM is
28 ineligible for a MOE Assignment.

29 For all other cases, the Mortgagee must notify HUD within 60 Days of a HECM
30 becoming Due and Payable without HUD's approval.

31 The Mortgagee must provide notice by:

- 32 • entering the Borrower's date of death in [HERMIT](#) for cases where the HECM
33 is Due and Payable due to the Borrower's death;
- 34 • initiating a Due and Payable without a HUD Approval timeline in HERMIT
35 for cases where the HECM is Due and Payable due to conveyance; or

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

- completing the Due and Payable timeline in HERMIT for cases where the HECM is Due and Payable due to a Deferral Period ending.

The Mortgagee must take whatever steps are necessary to ensure they are able to provide the required notice. Where state privacy laws impair the Mortgagee's ability to acquire relevant information about the death of a Borrower or an Eligible NBS, the Mortgagee must:

- notify HUD, through HERMIT, of the Due and Payable status within 30 Days of the end of the state's privacy law restriction on the Mortgagee's access to the information; and
- provide the relevant state law and a detailed explanation supporting the delay.

Notification During Deferral Periods

In the event of a Deferral Period, the Mortgagee must not complete the Due and Payable timeline until the Deferral Period ends.

The Mortgagee must complete the appropriate Due and Payable timeline within 60 Days from the end of the Deferral Period, which provides HUD the required notification and changes the HECM status in [HERMIT](#) to Due and Payable.

(D) Verbal Notification of Death to Mortgagee

When a HECM is Due and Payable as a result of a Borrower's death or a Deferral Period ends as a result of an Eligible NBS's death, the Mortgagee may accept verbal notification of the death from the heirs or estate for Due and Payable purposes.

iii. Required Notifications

(A) Standard

(1) Due and Payable Notice to Borrower for Reasons Other than Death

The Mortgagee must provide notice to the Borrower within 30 Days of receiving HUD's approval to call a HECM Due and Payable. The notice must:

- state that an obligation of the Borrower has not been met;
- state specifically what obligation of the Borrower has not been met;
- state that failure of the Borrower to comply with the terms of the HECM has resulted in the HECM becoming Due and Payable;
- provide notice of the availability of housing counseling;
- provide notice of any available Loss Mitigation Options the Mortgagee may offer; and
- provide the Borrower 30 Days to notify the Mortgagee of their intention to either:
 - satisfy the HECM in full;
 - sell the Property for at least 95 percent of the current appraised value;

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2. Default Servicing

- 1 ○ provide the Mortgagee with a DIL of Foreclosure; or
- 2 ○ correct the matter which resulted in the HECM becoming Due and
- 3 Payable.

(2) Due and Payable Notice to Borrower’s Estate or Heirs due to Death or End of Deferral Period

6 The Mortgagee must provide notice to the Borrower’s estate, heir, or other party
7 with legal title to the Property securing the HECM within 30 Days of the
8 Borrower’s death or the end of the Deferral Period. The notice must provide the
9 following options for the Borrower’s estate, heir, or other party with legal title to
10 the Property to resolve the HECM:

- 11 • satisfy the HECM for the lesser of the full debt or 95 percent of the current
- 12 appraised value;
- 13 • sell the Property for at least the lesser of the outstanding principal balance
- 14 or 95 percent of the current appraised value; or
- 15 • provide the Mortgagee with a DIL of Foreclosure.

(3) Notice to Non-Borrowing Spouse at the Start of a Deferral Period

17 Within 30 Days of receiving notice of the last surviving Borrower’s death, the
18 Mortgagee must provide to an Eligible NBS a notice including information on:

- 19 • the eligibility requirements for a Deferral Period;
- 20 • the conditions and requirements for the continuation of a Deferral Period;
- 21 • the ability to cure the default (due to failure to maintain the Property or
- 22 failure to pay Property Charges) in order to be in compliance with the
- 23 requirements for the continuation of a Deferral Period; and
- 24 • the ability to reinstate the Deferral Period, which may be limited under
- 25 certain circumstances.

(4) Due and Payable Notice to Non-Borrowing Spouse at the End of a Deferral Period – Non-Borrowing Spouse Ineligibility

28 When a Deferral Period ends because an Eligible NBS has become an Ineligible
29 NBS, the Mortgagee must notify the NBS within 30 Days after the end of the
30 Deferral Period that:

- 31 • the Deferral Period has ended;
- 32 • the HECM is Due and Payable; and
- 33 • the Borrower’s estate, heir, or other party with authority to dispose of the
34 Property may either:
 - 35 ○ satisfy the HECM for the lesser of the full debt or 95 percent of the
 - 36 current appraised value;
 - 37 ○ sell the Property for at least the lesser of the outstanding principal
 - 38 balance or 95 percent of the current appraised value; or
 - 39 ○ provide the Mortgagee with a DIL of Foreclosure.

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

(5) Due and Payable Notice to Non-Borrowing Spouse at the End of a Deferral Period – HECM Ineligibility

When a HECM is in a Deferral Period, if any other applicable requirements for deferral cease to be met, the Mortgagee must notify the Eligible NBS within 30 Days that:

- a requirement of the Deferral Period has not been met;
- the Eligible NBS has 30 Days to cure the condition of noncompliance; and
- failure to cure within such time will result in the Deferral Period ending and the HECM becoming Due and Payable with an explanation of Due and Payable status.

(B) Required Documentation

The Mortgagee must retain copies of all required notifications in the servicing file.

iv. Selling the Property Secured by a HECM

Under the terms of the HECM, the Borrower may sell the Property secured by a HECM at any time for the lesser of the full HECM debt or the current appraised value. If the HECM is Due and Payable, the Property may be sold for the lesser of the full HECM debt, including any and all expenses incurred in connection with the HECM, or 95 percent of the current appraised value. Upon receipt of a request from the Borrower or other party with the legal right to dispose of the Property, the Mortgagee must have the Property appraised in accordance with the [Required Appraisals](#) section. The Mortgagee must provide the requestor a copy of the appraisal and upload into [HERMIT](#).

Where the Property is sold for less than full payoff, the Mortgagee may file a [Short Sale Claims \(Claim Type 23\)](#) following the instructions in this section.

v. Required Inspections

(A) Standard

When a HECM is in Due and Payable status, the Mortgagee must perform a monthly visual inspection of the Property securing the HECM to determine whether the Property is vacant.

The Mortgagee must take reasonable action to [protect and preserve](#) the Property securing the HECM when it is determined or should have been determined that the Property is vacant or abandoned, if such action does not constitute illegal trespass. “Reasonable action” includes the commencement of foreclosure within the time required in this section.

1 **(B) Required Documentation**

2 The Mortgagee must upload into [HERMIT](#) copies of all inspection reports from the
3 initial inspection through the sale of the Property.

4 **vi. Required Appraisals**

5 **(A) Standard**

6 **(1) Appraisals for HECMs with a Case Number Assigned before September**
7 **19, 2017**

8 The Mortgagee must obtain an appraisal of the Property no later than 30 Days
9 after:

- 10 • the Mortgagee provides notice to the Borrower that the HECM is Due and
11 Payable;
12 • the Mortgagee becomes aware of the death of the last surviving Borrower;
13 • the end of a Deferral Period, if applicable; or
14 • the Borrower or Borrower’s estate, heir, or other party with authority to
15 [dispose of the Property](#) requests an appraisal in connection with a pending
16 sale of the Property.

17 HUD will extend the deadline of obtaining an appraisal if:

- 18 • the Mortgagee has ordered the appraisal within 30 Days of the above
19 events; and
20 • the Mortgagee has received that appraisal no later than 15 Days before the
21 foreclosure sale.

22 On the date of a foreclosure sale, the Mortgagee must file an appraisal-based
23 claim, and use a valid, unexpired appraisal as of the date of claim submission. If
24 there is no valid, unexpired appraisal, the Mortgagee must order a new appraisal
25 no later than 15 Days before the end of the six-month period following the
26 Mortgagee’s acquisition of the Property.

27 **(2) Appraisals for HECMs with a Case Number Assigned on or after**
28 **September 19, 2017**

29 The Mortgagee must have the Property appraised by an FHA Roster Appraiser no
30 later than 30 Days after the Borrower, Borrower’s estate, heir, or other party with
31 authority to [dispose of the Property](#) requests an appraisal in connection with a
32 pending sale of the Property. If the HECM is not Due and Payable, the appraisal
33 is at the Borrower’s expense. If the HECM is Due and Payable, the appraisal is at
34 the Mortgagee’s expense, but the Mortgagee may be reimbursed from the
35 proceeds of any sale or through the claim process.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 The Mortgagee must have the Property appraised before a foreclosure sale. The
2 appraisal must have an effective date that is no more than 30 Days before the sale.

3 If the Mortgagee is submitting an appraisal-based claim, the Mortgagee must use
4 a valid, unexpired appraisal as of the date of claim submission.

5 (B) Required Documentation

6 The Mortgagee must upload into [HERMIT](#) copies of all appraisals received.

7 c. Defaults for Unpaid Property Charges

8 i. Definition

9 HECM Loss Mitigation refers to strategies intended to minimize economic impact to the
10 Mutual Mortgage Insurance Fund (MMIF) and to avoid foreclosure, if possible.

11 Repayment Plan refers to a written agreement by the Borrower to make monthly
12 payments to the Mortgagee to reimburse the Mortgagee for corporate advances made on
13 the Borrower's behalf for taxes and/or insurance.

14 ii. Standard

15 (A) HECMs in Default due to Unpaid Property Charges

16 The Mortgagee may make property charge payments on behalf of the HECM
17 Borrower using funds available under the NPL.

18 (1) When Insufficient Funds Remain

19 If insufficient funds remain to satisfy these unpaid Property Charges, the
20 Mortgagee must promptly [notify the Borrower](#) that failure to make the payment
21 within 30 Days of the payment due date will result in the HECM becoming Due
22 and Payable.

23 If the Borrower does not make the required payment and provide the Mortgagee
24 documentation of such, the Mortgagee must:

- 25 • advance its corporate funds to pay the outstanding Property Charges;
- 26 • take whatever steps necessary to protect its and HUD's security interests;
- 27 and
- 28 • submit [a Due and Payable](#) request.

29 (2) When There is a Deferral Period

30 During a Deferral Period, the Mortgagee must not make property charge
31 payments using HECM proceeds as no further Disbursements are available under
32 the HECM.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 If a property charge payment is missed during a Deferral Period, the Mortgagee
2 must notify any Eligible NBS that an obligation of the HECM was not satisfied
3 and that the Deferral Period has ended unless the default is cured within 30 Days.

4 If the default is not cured within such time, the Mortgagee must proceed in
5 accordance with [applicable time frames](#) to initiate foreclosure and reasonable
6 diligence in prosecuting foreclosure.

7 If a default is cured at any time prior to a foreclosure sale, the Mortgagee must
8 reinstate the Deferral Period provided the [Deferral Period reinstatement](#)
9 [provisions](#) for an Eligible NBS are met.

10 (3) HECMs with Set-Aside Accounts

11 For HECMs with Set-Aside accounts for paying Property Charges, the HECM
12 will be considered in default and eligible for [Due and Payable](#) status if:

- 13 • the Set-Aside account has been exhausted of available funds to make
14 property charge payments;
- 15 • the Borrower fails to remit the property charge payment in full within 30
16 Days as required, [after being notified](#) by the Mortgagee of their
17 outstanding property charge obligation; and
- 18 • the Principal Limit has been exhausted, requiring the Mortgagee to make
19 the property charge payment using corporate funds.

20 (B) Notification to the HECM Borrower of a Missed Property Charge Payment

21 The Mortgagee must provide the Borrower a Property Charge Delinquency letter
22 within 30 Days of the Mortgagee receiving notification that a property charge
23 payment is outstanding when the Borrower has failed to make the required payment
24 and provide the Mortgagee documentation of such payment. The Mortgagee may vary
25 the actual structure of the letter, but must include the following:

- 26 • state that an obligation of the Borrower to pay Property Charges has not been
27 met;
- 28 • state that the Borrower's failure to pay Property Charges within 30 Days of
29 the notice will result in the HECM becoming Due and Payable;
- 30 • where applicable, include the amount of corporate funds advanced by the
31 Mortgagee on the Borrower's behalf to satisfy the unpaid Property Charge and
32 state that the Borrower's failure to reimburse the Mortgagee within 30 Days of
33 the notice will result in the HECM becoming Due and Payable;
- 34 • provide notice of availability of housing counseling; and
- 35 • provide information regarding Loss Mitigation Options that may be available
36 to a Borrower in default, including:
 - 37 ○ refinancing the defaulted HECM into a new HECM if possible under all
38 applicable origination requirements;

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

- 1 ○ local assistance programs (e.g., HHF) available for Borrowers; and
- 2 ○ disposition options including sale of Property or DIL.

3 **(C) Requesting Due and Payable**

4 If a property charge default has not been cured within 30 Days of notifying the
5 Borrower of unpaid Property Charges, the Mortgagee must submit to HUD a Due and
6 Payable request, in accordance with the [Due and Payable policies](#).

7 Where the Mortgagee is willing to offer the HECM Borrower an available Loss
8 Mitigation Option, the Mortgagee may request a Property Charge Loss Mitigation
9 Extension to the foreclosure time frame in [HERMIT](#) following the guidance in the
10 [Mortgagee Extension for Property Charge Loss Mitigation](#) section.

11 **(D) Permissible Loss Mitigation Options Available for HECMs in Due and** 12 **Payable Status**

13 If the Loss Mitigation Options identified in the [Property Charge Delinquency letter](#)
14 are unavailable, have been declined by the Borrower, or have been otherwise
15 exhausted, the Mortgagee may review the Borrower for the following:

- 16 • Option 1: Repayment Plan to satisfy outstanding corporate advances made for
17 property charge defaults; or
- 18 • Option 2: an extension of the foreclosure time frames due to an At-Risk
19 HECM Borrower.

20 The Mortgagee will not be reimbursed for any amount greater than the MCA, even if
21 the HECM balance exceeds 100 percent of the MCA due to the Mortgagee providing
22 a Repayment Plan. In addition, a HECM with an active Repayment Plan is not
23 eligible for assignment to HUD.

24 **(1) Option 1: HECM Loss Mitigation Repayment Plan**

25 The Mortgagee must determine the Borrower's ability to support, and likelihood
26 of success under, a Repayment Plan before offering this Loss Mitigation Option.
27 If the Borrower will not be able to repay the corporate advance within the
28 permissible time, this Loss Mitigation Option is not available.
29 HOA/Condominium Fees are ineligible for Repayment Plans and must not be
30 included in any calculations for the Repayment Plan. Additionally, any
31 permissible Repayment Plan must provide that in the event the last surviving
32 Borrower dies before the Repayment Plan is paid in full, any outstanding amounts
33 owed become immediately due and must be satisfied within 30 Days.

34 The Mortgagee must follow the steps below when evaluating a Borrower for a
35 Repayment Plan.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 **(a) Assessing the Borrower for a Repayment Plan**

2 When assessing a Borrower for a Repayment Plan, the Mortgagee must
3 evaluate the Borrower's ability to repay the Mortgagee's corporate advances
4 through a Repayment Plan by using the financial information provided by the
5 Borrower and the calculation instructions below.

6 The Mortgagee must determine the shortest time period necessary, not to
7 exceed five years, for the Repayment Plan to ensure repayment at the earliest
8 possible date.

9 **(b) Repayment Plan Calculation**

10 **(i) Calculate Total Arrearage**

11 The total arrearage is determined by adding the outstanding corporate
12 advances for taxes and/or insurance made for the account to any Property
13 Charges due for the next 90 Days and deducting any amounts due for
14 HOA/Condominium Fees.

15 **(ii) Calculate Monthly Surplus Income**

16 The HECM Borrower's monthly surplus income is the total amount of
17 income as stated by the Borrower, less:

- 18 • the Borrower's necessary living expenses; and
- 19 • one-twelfth of the Property Charges due over the next 12 months.

20 **(iii) Calculate Repayment Plan Terms**

21 The Mortgagee must determine if the Repayment Plan can be achieved
22 using 25 percent of the Borrower's monthly surplus income. If the total
23 amount divided by 25 percent of the Borrower's monthly surplus income,
24 rounded up to the nearest whole month, is:

- 25 • 60 months or less, the result is the required length of the
26 Repayment Plan; or
- 27 • more than 60 months, the Mortgagee must determine the
28 percentage of the Borrower's monthly surplus income needed to
29 repay in 60 months:
 - 30 ○ if the resulting percentage would represent a reasonable
31 expectation of the Borrower's performance, the required length
32 of the Repayment Plan is 60 months; or
 - 33 ○ if the resulting percentage would represent an unreasonable
34 expectation of the Borrower's performance, the Borrower's
35 surplus income is insufficient to support a Repayment Plan and
36 this option is no longer available.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 The required minimum monthly payment equals the total arrearage
2 divided by the length of the Repayment Plan.

3 **(iv) Insufficient Surplus Income for a Repayment Plan**

4 Where the Mortgagee determines that the Borrower's surplus income is
5 insufficient to support a reasonable Repayment Plan, the Mortgagee may
6 assess the Borrower for an [At-Risk extension](#).

7 **(c) Additional Unpaid Property Charges or Hardship Experienced after** 8 **Establishing a Repayment Plan**

9 **(i) Additional Unpaid Property Charges**

10 In cases where there is an active Repayment Plan, the Mortgagee may
11 reevaluate the Borrower for a new Repayment Plan if the Borrower again
12 fails to pay the required Property Charges. The Mortgagee must solicit
13 new financial information from the Borrower to conduct this assessment.

14 To revise the Repayment Plan the Mortgagee must use a recalculated total
15 arrearage, including all outstanding corporate advances made.

16 The Mortgagee must determine the maximum permitted length of a new
17 Repayment Plan by subtracting the number of months of previous
18 Repayment Plan participation from 60 months, which is the maximum
19 available time frame. The Mortgagee must then determine if the new
20 Repayment Plan can be achieved using 25 percent of the Borrower's
21 monthly surplus income. If the revised total amount divided by 25 percent
22 of the Borrower's monthly surplus income, rounded up to the nearest
23 whole month, is:

- 24 • no more than the maximum permitted length as calculated above,
25 the result is the required length of the new Repayment Plan; or
- 26 • more than the maximum permitted length, the Mortgagee must
27 determine the percentage of the Borrower's monthly surplus
28 income needed to repay within the permitted time period:
 - 29 ○ if the resulting percentage would represent a reasonable
30 expectation of the Borrower's performance, the required length
31 of the new Repayment Plan is the maximum permitted time; or
 - 32 ○ if the resulting percentage would represent an unreasonable
33 expectation of the Borrower's performance, the Borrower's
34 surplus income is insufficient to support a new Repayment
35 Plan and this option is no longer available.

36 The required minimum monthly payment for a new Repayment Plan
37 equals the revised total arrearage divided by the length of the new
38 Repayment Plan.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 **(ii) Experienced Hardships**

2 If the Borrower experiences a decrease in their surplus income due to a
3 verified hardship (e.g., illness, death of a household member who was
4 identified as a contributor of income in a previous Repayment Plan
5 calculation, emergency home repair, loss of employment income, etc.) and
6 requests a Repayment Plan adjustment, the Mortgagee must solicit new
7 financial information from the Borrower to conduct a new Repayment
8 Plan assessment.

9 To revise the Repayment Plan the Mortgagee must use a recalculated
10 Borrower's surplus income amount.

11 The Mortgagee must determine the maximum permitted length of a new
12 Repayment Plan by subtracting the number of months of previous
13 Repayment Plan participation from 60 months, which is the maximum
14 available time frame. The Mortgagee must then determine if the new
15 Repayment Plan can be achieved using 25 percent of the Borrower's new
16 monthly surplus income. If the total amount divided by 25 percent of the
17 Borrower's new monthly surplus income, rounded up to the nearest whole
18 month, is:

- 19 • no more than the maximum permitted length as calculated above,
20 the result is the required length of the new Repayment Plan; or
- 21 • more than the maximum permitted length, the Mortgagee must
22 determine the percentage of the Borrower's new monthly surplus
23 income needed to repay within the permitted time:
 - 24 ○ if the resulting percentage would represent a reasonable
25 expectation of the Borrower's performance, the required length
26 of the new Repayment Plan is the maximum permitted time; or
 - 27 ○ if the resulting percentage would represent an unreasonable
28 expectation of the Borrower's performance, the Borrower's
29 surplus income is insufficient to support a new Repayment
30 Plan and this option is no longer available.

31 The required minimum monthly payment for a new Repayment Plan
32 equals the total arrearage divided by the length of the new Repayment
33 Plan.

34 **(iii) Insufficient Surplus Income for a New Repayment Plan**

35 Where the Mortgagee determines that the Borrower's surplus income is
36 insufficient to support a reasonable new Repayment Plan, the Mortgagee
37 may assess the Borrower for an [At-Risk extension](#).

1 **(d) Unsuccessful Repayment Plan Performance**

2 A Borrower's Repayment Plan performance is unsuccessful when a full
3 monthly payment is not made within 60 Days of the monthly payment due
4 date.

5 Where a Borrower fails to perform successfully under an existing Repayment
6 Plan, the Mortgagee may consider one of the following options:

- 7 • if the outstanding arrearage is less than \$5,000 and the Mortgagee
8 determines that a recalculated Repayment Plan results in reasonable
9 payments, provide the Borrower with such; or
- 10 • if the outstanding arrearage is greater than \$5,000 or the Mortgagee
11 determines that a recalculated Repayment Plan results in unreasonable
12 payments, assess the Borrower for an [At-Risk extension](#).

13 If a Repayment Plan is unsuccessful and either the Mortgagee chooses not to
14 offer one of the above options or, after considering the options, determines
15 neither is available, any extension to the foreclosure time frames cease
16 immediately and the Mortgagee must proceed in accordance with HUD's
17 regulations. However, the Mortgagee may receive an automatic 90-Day
18 extension after a failed Repayment Plan to resume or restart foreclosure.

19 **(e) Repayment Plans Satisfied Immediately Upon Death**

20 Any approved Property Charge loss mitigation extension immediately ceases
21 when the last surviving Borrower dies. Any outstanding corporate advances
22 owed become immediately due. If any amount owed is not satisfied within 30
23 Days, the Mortgagee must proceed with calling the HECM Due and Payable.

24 If any outstanding amounts due are satisfied, the Mortgagee must request that
25 the Due and Payable status on the HECM related to the repayment of any
26 approved Property Charges be rescinded.

27 **(2) Option 2: Allowable Foreclosure Extensions for At-Risk HECM**
28 **Borrowers**

29 **(a) Definition**

30 An At-Risk HECM Borrower refers to a Borrower who is in default for
31 unpaid Property Charges, has insufficient surplus income to support a
32 Repayment Plan, or was unsuccessful in their Repayment Plan and meets the
33 following criteria:

- 34 • the youngest living Borrower is at least 80 years of age; and
- 35 • the Mortgagee has determined that the Borrower or Family Member
36 receiving care in the residence has critical circumstances such as a
37 supported terminal illness or substantiated long-term physical disability.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 **(b) Standard**

2 To request a Property Charge loss mitigation extension for an At-Risk HECM
3 Borrower, the Mortgagee must use the appropriate timeline in [HERMIT](#) and
4 identify their request as At-Risk.

5 Upon request of the Mortgagee, HUD will determine whether a one-year
6 extension will be granted and reserves the right to require the Mortgagee to
7 timely proceed to foreclosure.

8 If the last surviving Borrower dies or one of the required criteria cease to be
9 met, any approved extension ceases immediately and the Mortgagee must
10 proceed in accordance with HUD's regulations.

11 **(c) Required Documentation**

12 The Mortgagee must include supporting documentation with the extension
13 request validating that the Borrower meets the definition of an At Risk
14 Borrower.

15 **(E) Optional Delay to Submit a Due and Payable Request for Low Balance**
16 **Arrearages**

17 The Mortgagee may delay submitting a due and payable request to HUD for HECMs
18 with a total arrearage amount associated with property taxes and Hazard Insurance
19 that is less than \$2,000 by uploading documentation into [HERMIT](#) establishing that
20 either:

- 21 • the Mortgagee is unable to contact the Borrower, and:
 - 22 ○ the Mortgagee has received the Borrower's current annual Occupancy
 - 23 Certification; and
 - 24 ○ the Mortgagee has no indication that the Borrower has vacated the
 - 25 Property; or
- 26 • the Mortgagee has contacted the Borrower, and:
 - 27 ○ the Borrower has expressed a willingness to repay; and
 - 28 ○ the Borrower is currently making payments or partial payments.

29 The Mortgagee must submit a due and payable request to HUD immediately upon the
30 occurrence of any of the following events, whichever occurs first:

- 31 • the Borrower fails to timely complete the annual Occupancy Certification;
- 32 • the Borrower no longer occupies the Property securing the HECM as their
- 33 Principal Residence;
- 34 • 12 months have elapsed from the first missed property tax and/or Hazard
- 35 Insurance payment, and the Mortgagee is still unable to contact the Borrower;
- 36 • the Borrower has expressed an unwillingness to repay; or
- 37 • the total arrearage exceeds \$2,000.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 **(F) Election to Avoid Due and Payable Request or Rescission of Due and Payable**
2 **for a Mortgagee-Funded Cure**

3 A Mortgagee may elect not to submit a due and payable request or request HUD
4 rescind a previous due and payable approval where the Mortgagee has used its funds
5 to cure a Borrower’s outstanding property tax and/or hazard insurance payment(s) if:

- 6 • no amount provided by the Mortgagee is added to the outstanding HECM
7 balance;
- 8 • no amount provided by the Mortgagee is added to any future claim for FHA
9 insurance benefits;
- 10 • the Mortgagee does not exceed during the life of the HECM one mortgagee-
11 funded cure for taxes and one mortgagee-funded cure for insurance; and
- 12 • the Mortgagee agrees not to pursue assignment for three years after a
13 mortgagee-funded cure.

14 **(G)Curing the Default Following a Due and Payable Request**

15 At any time prior to a foreclosure, the HECM default may be cured if the Borrower or
16 Eligible NBS:

- 17 • becomes current on all Property Charges;
- 18 • repays all applicable corporate advances made by the Mortgagee; and
- 19 • fully cures any outstanding reasons for default.

20 Where the last surviving Borrower has died and there is an Eligible NBS, the [Deferral](#)
21 [Period Requirements](#) will apply after the property charge default is cured.

22 HECMs with Repayment Plans or an [At-Risk extension](#) are not eligible for
23 assignment until the default is cured, at which time the Mortgagee may assign the
24 HECM in accordance with guidance for [submitting assignment requests](#).

25 **(H)Assignment Following a Mortgagee-Funded Cure**

26 A Mortgagee may choose to pay delinquent Property Charges on behalf of a
27 Borrower using the Mortgagee’s own funds. This payment is a mortgagee-funded
28 cure. The Mortgagee may not pursue assignment for a HECM until three consecutive
29 years have passed where the Borrower has paid all taxes and insurance on time and
30 the Mortgagee has not advanced any funds on the Borrower’s behalf.

31 The three-year period begins on the Day the Mortgagee advances the funds for a
32 mortgagee-funded cure. The Mortgagee must track the three-year period in [HERMIT](#)
33 under the “Alerts” tab as follows:

- 34 • New – select “Insurance Default” or “Tax Default”;
- 35 • Alert Date – enter the date of the mortgagee-funded cure;
- 36 • Expiration Date – enter the Alert Date plus three years;
- 37 • Alert Amount – enter the amount funded by the Mortgagee;

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

- 1 • Status – enter “Active”; and
- 2 • Alert Note – enter “Mortgagee-Funded Cure.”

3 The Mortgagee must separately track each mortgagee-funded cure for taxes and/or for
4 insurance. When the Mortgagee is tracking more than one cure, the three-year period
5 begins on the date of the last mortgagee-funded cure.

6 The Mortgagee will not be reimbursed for any amount greater than the HECM’s
7 MCA.

8 **iii. Required Documentation**

9 **(A) Due and Payable Notice**

10 Where the Borrower has failed to cure the default and the HECM has been called Due
11 and Payable, the Mortgagee must provide the Borrower a [Due and Payable notice](#) in
12 accordance with HUD’s [Due and Payable policies](#).

13 **(B) Property Charge Loss Mitigation Extension for Repayment Plans**

14 When an extension to the foreclosure time frames is taken due to the use of a
15 Repayment Plan, the Mortgagee must upload in [HERMIT](#) a fully executed
16 Repayment Plan agreement that provides the following information:

- 17 • date of agreement;
- 18 • total outstanding arrearage;
- 19 • monthly surplus income amount;
- 20 • Repayment Plan term;
- 21 • monthly Repayment Plan amount; and
- 22 • due date of next monthly Repayment Plan amount.

23 **(C) Ongoing Reporting Requirements for Repayment Plans**

24 When a HECM becomes eligible to be called Due and Payable as a result of the
25 Borrower’s failure to pay property taxes and/or Hazard Insurance, the Mortgagee
26 must report the default event using [HERMIT](#).

27 While a HECM is on a Repayment Plan, the Mortgagee must update HERMIT
28 monthly with the following information:

- 29 • total outstanding arrearage;
- 30 • monthly surplus income;
- 31 • term of Repayment Plan;
- 32 • amount of monthly Repayment Plan payment;
- 33 • due date of next monthly payment;
- 34 • when a Borrower experiences a hardship; and
- 35 • reason for hardship.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 When the default is subsequently cured, the Mortgagee must upload supporting
2 documentation into HERMIT, reflecting the resolution of the default.

3 **d. Initiation of Foreclosure and Reasonable Diligence Time Frames**

4 **i. Initiation of Foreclosure**

5 **(A) Case Numbers Assigned before September 19, 2017**

6 If a HECM has not been satisfied or the default cured in response to a Due and
7 Payable notification to the Borrower, the Mortgagee must commence foreclosure by
8 taking the first legal action identified in [Appendix 5](#) as required by the state in which
9 the Property is located. The first legal action to initiate foreclosure must occur:

- 10 • no later than six months after the earliest of either:
 - 11 ○ the death of the last surviving Borrower, unless there is an applicable
 - 12 Deferral Period;
 - 13 ○ the end of any applicable Deferral Period; or
 - 14 ○ the Mortgagee’s notice to the Borrower that the HECM is Due and
 - 15 Payable when the HECM is Due and Payable for reasons other than death;
 - 16 or
- 17 • within an extended time frame as approved by HUD.

18 If federal bankruptcy law or the laws of the state, city, or municipality in which the
19 HECM Property is located do not permit the commencement of foreclosure within the
20 above referenced time frame, the Mortgagee must commence foreclosure within six
21 months after the period during which foreclosure is prohibited by such laws.

22 Where state privacy laws impair the Mortgagee’s ability to acquire relevant
23 information about the death of a Borrower or an Eligible NBS, the Mortgagee must
24 initiate foreclosure within three months from the date of the expiration of such period
25 of impairment.

26 **(B) Case Numbers Assigned on or after September 19, 2017**

27 If a HECM has not been satisfied or the default cured in response to a Due and
28 Payable notification, the Mortgagee must commence foreclosure by taking the first
29 legal action identified in [Appendix 5](#) as required by the state in which the Property is
30 located. The first legal action to initiate foreclosure must occur:

- 31 • no later than six months after the earliest of either:
 - 32 ○ the date the Mortgagee notifies, or should have notified, HUD of the death
 - 33 of the last surviving Borrower unless there is an applicable Deferral
 - 34 Period;
 - 35 ○ the end of any applicable Deferral Period;
 - 36 ○ HUD’s Due and Payable approval when the HECM is Due and Payable
 - 37 for reasons other than death; or

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

- the date the Mortgagee notifies, or should have notified, HUD of the conveyance of all title and no Borrower remains on title to the Property; or
- within the extended time frame as approved by the Secretary.

If federal bankruptcy law or the laws of the state, city, or municipality in which the HECM Property is located do not permit the commencement of foreclosure within the above referenced time frame, the Mortgagee must commence foreclosure within six months after the time during which foreclosure is prohibited by such laws.

Where state privacy laws impair the Mortgagee's ability to acquire relevant information about the death of a Borrower or an Eligible NBS, the Mortgagee must initiate foreclosure within three months from the date of the expiration of such period of impairment.

(C) Required Documentation

The Mortgagee must provide notice to HUD via [HERMIT](#) within 30 Days of initiating foreclosure using the appropriate timeline.

ii. Reasonable Diligence in Prosecuting Foreclosure

The Mortgagee must exercise reasonable diligence in prosecuting foreclosure proceedings from first legal action to completion, as indicated by acquiring title to and possession of the Property. [Appendix 5](#) provides the Reasonable Diligence Time Frame established by HUD for each state.

iii. Available Extensions

(A) Borrower-Initiated Requests for Extensions to Sell the Property or Otherwise Satisfy the HECM

The Borrower or other party holding legal title to the Property may request additional time to:

- market and sell a Property securing a HECM if evidence can be provided demonstrating:
 - the Property is being actively marketed; or
 - closing or payoff delays associated with an executed sales contract; or
- satisfy a HECM if evidence can be provided demonstrating attempts to satisfy the HECM balance.

If the Mortgagee receives such a documented request, the Mortgagee must submit a 90-Day extension request with documentation to HUD through the appropriate [HERMIT](#) timeline. The Mortgagee may submit no more than two 90-Day Borrower-initiated extension requests under this section.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 **(B) Mortgagee Extension after Borrower’s Failure to Sell or Satisfy the HECM**

2 The Mortgagee may utilize one 90-Day extension to commence foreclosure following
3 a fully documented, failed attempt by the Borrower, or the Borrower’s estate or heir,
4 or other party with legal authority to sell the Property or otherwise satisfy the HECM.
5 The Mortgagee must include in the servicing file evidence of the active marketing of
6 the Property or attempts to satisfy the HECM balance, and document the use of the
7 extension when [submitting the claim](#).

8 This extension is provided only for the Mortgagee’s operational purposes of meeting
9 the deadline for taking first legal action to foreclose.

10 **(C) Mortgagee Extension for Property Charge Loss Mitigation**

11 Where the Mortgagee is willing to offer the HECM Borrower an available Loss
12 Mitigation Option, the Mortgagee may request a Property Charge loss mitigation
13 extension to the foreclosure time frame in [HERMIT](#) using the appropriate timeline,
14 provided all requirements established in this section are met.

15 Any approved extension of the foreclosure time frames ceases immediately if, at any
16 point, the Mortgagee determines:

- 17 • that no Loss Mitigation Options are viable;
- 18 • the Borrower is unwilling to reimburse the property charge payments
19 advanced on their behalf evidenced either by self-certification or non-
20 communication with a Mortgagee for 60 Days;
- 21 • the Borrower is unable to cure the default; or
- 22 • the last surviving Borrower dies.

23 Any request for an extension to a foreclosure time frame due to the Mortgagee’s
24 election to offer a permissible Loss Mitigation Option under this section must include
25 documentation that the eligibility requirements have been met.

26 **(D) Mortgagee Extension for Borrower Participation in Hardest Hit Fund**
27 **Programs**

28 **(1) Definition**

29 Hardest Hit Funds (HHF), for purposes of HECM, refers to funds available from
30 state agency programs to assist Borrowers with resolving property charge
31 defaults. The funds from these programs are a lump sum provided to the
32 Mortgagee to be used to cure the Borrower’s default.

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

1 (2) Standard

2 When a Borrower is receiving funds through an HHF program, the Mortgagee
3 may request a 45-Day extension to the time frames for commencing foreclosure
4 or reasonable diligence in completing foreclosure, provided that:

- 5 • the Mortgagee obtains a copy of the borrower's approval from the state
6 Housing Finance Agency (HFA) or other entity administering a state's
7 HHF; and
- 8 • the HECM is an active loan in Due and Payable status.

9 If the Mortgagee elects to pursue this extension, the Mortgagee must submit the
10 request with documentation to HUD using the appropriate [HERMIT](#) timeline. The
11 HHF program funds must be received and applied within the 45-Day extension
12 period. After a property charge default is cured, the Mortgagee must request
13 rescission of the HECM's Due and Payable approval through the appropriate
14 timeline in HERMIT.

15 If the HHF program funds are not received, are not disbursed on behalf of the
16 Borrower, or do not adequately cure the default within the 45-Day extension
17 period, the Mortgagee must proceed in accordance with the applicable foreclosure
18 time frames. The Mortgagee must retain documentation regarding any HHF-
19 related delay in initiating or completing foreclosure in its servicing file in order to
20 avoid curtailment.

21 iv. Curing the Default

22 (A) To Reinstate the HECM

23 At any time prior to a foreclosure sale, the Mortgagee must permit the Borrower to
24 cure the default and reinstate the HECM, unless:

- 25 • the Mortgagee has accepted reinstatement of the HECM within the past two
26 years immediately preceding the current notification to the Borrower that the
27 HECM is Due and Payable;
- 28 • reinstatement will preclude foreclosure if the HECM becomes Due and
29 Payable at a later date; or
- 30 • reinstatement will adversely affect the priority of the HECM lien.

31 The Mortgagee may require the Borrower to pay any foreclosure costs and reasonable
32 attorney fees incurred in connection with a canceled foreclosure by adding the
33 expenses to the outstanding HECM balance.

34 (B) To Reinstate a Deferral Period

35 At any time prior to a foreclosure sale, the Mortgagee must permit an Eligible NBS to
36 cure the condition that resulted in the Deferral Period ceasing, and reinstate the
37 Deferral Period, unless:

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2. Default Servicing

- 1 • the Mortgagee has reinstated the Deferral Period within the past two years
- 2 immediately preceding the latest notification to the Eligible NBS that the
- 3 HECM is Due and Payable;
- 4 • reinstatement of the Deferral Period will preclude foreclosure if the HECM
- 5 becomes Due and Payable at a later date; or
- 6 • reinstatement of the Deferral Period will adversely affect the priority of the
- 7 first and second HECM liens.

8 To reinstate the Deferral Period, the Mortgagee may require the Eligible NBS to pay
9 any costs the Mortgagee incurred in connection with a canceled foreclosure. The
10 Mortgagee must not add these costs to the outstanding HECM balance.

11 v. Bidding at Foreclosure Sale

12 At the foreclosure sale, the Mortgagee must bid the lesser of:

- 13 • the full debt, consisting of the outstanding HECM balance and any and all other
- 14 incurred expenses; or
- 15 • the current appraised value of the Property.

16 vi. Deed-in-Lieu of Foreclosure

17 (A) Definitions

18 A Deed-in-Lieu (DIL) of Foreclosure is an option for a property owner to deed a
19 mortgaged Property to the Mortgagee in lieu of the Mortgagee taking title through a
20 foreclosure action.

21 Due and Payable Date refers to the date when the Mortgagee notifies or should have
22 notified the Commissioner that the Mortgage is Due and Payable under the conditions
23 stated in the Mortgage or the date that a Deferral Period ends, or the date the
24 Commissioner approved a Due and Payable request submitted by the Mortgagee.

25 (B) Standard

26 The Mortgagee must accept a DIL of Foreclosure from the Borrower or other party
27 with legal right to dispose of the Property provided:

- 28 • the Mortgagee is able to obtain good and marketable title; and
- 29 • for HECMs with FHA case numbers assigned on or after September 19, 2017,
- 30 the Mortgagee files the DIL of Foreclosure for recording within nine months
- 31 of the due date.

32 Within 30 Days of receipt of the executed and delivered DIL, the Mortgagee must:

- 33 • deliver to the Borrower the canceled Note;
- 34 • record the satisfaction of the HECM lien; and
- 35 • where applicable, request that HUD release the second HECM lien.

1 **vii. Cash for Keys Consideration**

2 **(A) Definitions**

3 Bona Fide Tenant refers to a tenant who entered into a rental agreement before the
4 foreclosure sale who is not related to the previous owner, who negotiated the rental
5 agreement at arm's length, and who pays the fair market rent for the Property.

6 Cash for Keys refers to a monetary consideration offered as an incentive to expedite a
7 DIL or as an alternative to legal eviction of Bona Fide Tenants after foreclosure.

8 **(B) Standard**

9 The Mortgagee may offer up to \$3,000 per dwelling in exchange for the occupants
10 vacating the Property where:

- 11 • the Borrower or other party with a legal right to do so provides a DIL to the
- 12 Mortgagee within six months of the due date; or
- 13 • a Bona Fide Tenant vacates the Property prior to an eviction being initiated by
- 14 the Mortgagee following foreclosure.

15 Before releasing the funds, the Mortgagee must inspect the Property to ensure that:

- 16 • the Property is in Broom-swept Condition; and
- 17 • all built-in appliances and fixtures remain in the Property.

18 The Mortgagee may be reimbursed for Cash for Keys expenses through a subsequent
19 claim.

20 **(C) Required Documentation**

21 Where Cash for Keys is offered in relation to a DIL, the Mortgagee must provide
22 documentation with the claim in [HERMIT](#) showing the date and amount of
23 consideration offered, along with the date:

- 24 • the DIL was executed and returned to the Mortgagee;
- 25 • the DIL was filed for recording;
- 26 • the occupant vacated the Property; and
- 27 • the occupant received the funds.

28 Where Cash for Keys is offered to a Bona Fide Tenant after foreclosure, the
29 Mortgagee must provide documentation with the claim in HERMIT showing:

- 30 • the date of the foreclosure sale;
- 31 • evidence the Mortgagee was the successful bidder;
- 32 • the date the Mortgagee determined the Property was occupied by a Bona Fide
- 33 Tenant;
- 34 • a copy of the lease signed by the Borrower and tenant with a term that
- 35 extended past the time frame for which an eviction would be required;

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2. Default Servicing

- 1 • the date and amount of the relocation offer;
- 2 • the date of the actual vacancy; and
- 3 • the date the tenant received the funds.

4 **e. Sale of Property Acquired through Foreclosure or DIL**

5 Where the Mortgagee intends to submit an [Acquired Property Claim \(Claim Type 21\)](#), the
6 Mortgagee must:

- 7 • take possession of the Property;
- 8 • preserve and protect the Property in accordance with [Appendix 6](#); and
- 9 • make a diligent effort to sell the Property within six months from the date the
10 Mortgagee acquired the Property, or within such additional time as provided by HUD.

11 The Mortgagee must sell the Property for an amount no less than the current appraised value
12 unless the Mortgagee obtains written permission from HUD authorizing a sale at a lower
13 price.

14 **i. Repairs**

15 The Mortgagee must repair the Property only to the extent the repairs do not exceed those
16 required:

- 17 • by local law; or
- 18 • by HUD or the Department of Veterans Affairs (VA), if the sale of the Property is
19 being financed using an FHA-insured or VA-guaranteed mortgage.

20 The Mortgagee must not make any other repairs without specific advance approval from
21 HUD. The Mortgagee must submit an over-allowable request using the appropriate
22 timeline in [HERMIT](#).

23 **ii. Closing Costs**

24 For case numbers assigned on or after September 19, 2017, the Mortgagee may be
25 reimbursed for allowable closing costs associated with the sale of the Property in an
26 amount not to exceed the greater of 11 percent of the sales price.

27 Allowable closing costs may include:

- 28 • a sales commission at a rate customarily paid in the community; and
- 29 • other reasonable and customary expenses incurred in connection with the sale of
30 the Property.

31 **iii. Prohibited Conflicts of Interest**

32 The Mortgagee must not enter into a contract for the preservation, repair, or sale of the
33 Property with any:

- 34 • officer, employee, or owner of 10 percent or more interest in the Mortgagee;

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2. Default Servicing

- 1 • other person or organization having an Identity of Interest with the Mortgagee; or
2 • Family Member of such officer, employee, owner, or person.

3 **f. Claims**

4 **i. Claim Guidance**

5 **(A) Claim Not Permitted after Satisfaction of a HECM by Payoff**

6 A Mortgagee must not file a claim for insurance benefits when the HECM is satisfied
7 in full.

8 A bid by any party other than the Mortgagee at a foreclosure sale for the full debt,
9 consisting of the outstanding HECM balance and any and all other incurred expenses,
10 will result in a full payoff of the HECM. In such cases, the Mortgagee must not file a
11 claim for insurance benefits.

12 **(B) Contract of Insurance Not Terminated**

13 The Mortgagee may only file a claim for insurance benefits where the contract of
14 insurance has not terminated.

15 **(C) Time Frames for Filing Claims**

16 **(1) Case Numbers Assigned before September 19, 2017**

17 The Mortgagee must file a claim within 15 Days of:

- 18 • the Mortgagee selling the Property acquired through foreclosure or DIL;
19 • a sale by the Borrower or other party with legal right to dispose of the
20 Property;
21 • satisfaction of the HECM by the Borrower's estate or heir; or
22 • assignment of the HECM to the Secretary.

23 **(2) Case Numbers Assigned on or after September 19, 2017**

24 The Mortgagee must file a claim within 30 Days of:

- 25 • the Mortgagee selling the Property acquired through foreclosure or DIL;
26 • a sale by the Borrower or other party with legal right to dispose of the
27 Property; or
28 • satisfaction of the HECM by the Borrower's estate or heir.

29 The Mortgagee must file a claim within 15 Days of assignment of the HECM to
30 the Secretary.

31 If the Property will not be sold within six months from the foreclosure sale date
32 where the Mortgagee was the successful bidder, the Mortgagee must file a claim

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2. Default Servicing

1 no later than 30 Days after the end of the six-month period. The Mortgagee must
2 use a valid appraisal, substituting the appraised value for the sales price of the
3 Property.

4 **(D) Claims Filed in HERMIT**

5 All HECM claims must be filed with supporting documentation in [HERMIT](#) using the
6 appropriate timeline. The unpaid principal balance of the HECM is capped as of the
7 due date. The Mortgagee must itemize all allowable expenses incurred after the [Due](#)
8 [and Payable Date](#).

9 **(E) Claims Limited by Maximum Claim Amount**

10 **(1) Case Numbers Assigned before September 19, 2017**

11 In no case may the claim paid exceed the MCA. The interest allowance provided
12 in 24 CFR § 206.129(d)(3)(x), (e)(2) and (f)(2)(i) will not be included in
13 determining the limit on the claim amount.

14 **(2) Case Numbers Assigned on or after September 19, 2017**

15 In no case may the claim paid exceed the MCA. The interest allowance provided
16 in 24 CFR § 206.129(d)(3)(x), (e)(2) and (f)(2)(ii) will be made in cash in the
17 amount determined under the regulations and will be included in determining the
18 limit on the claim amount.

19 **(F) Curtailment of Interest for Noncompliance with HUD HECM Program** 20 **Requirements**

21 Causes for curtailment of interest include, but are not limited to, the Mortgagee's
22 failure to:

- 23 • timely request due and payable approval from HUD within 30 Days of the
24 occurrence of a Due and Payable event for which HUD approval is needed;
- 25 • timely provide notice to HUD of the death of the last surviving Borrower or
26 conveyance of title within 60 Days of the occurrence of the Due and Payable
27 event;
- 28 • timely provide notice to HUD within 60 days after the end of the Deferral
29 Period;
- 30 • timely provide the required due and payable notice to the Eligible NBS within
31 30 Days after the end of the Deferral Period;
- 32 • timely provide the required due and payable notice to the Borrower, their
33 estate, or heir, or other party with legal title to the Property that the HECM is
34 Due and Payable within 30 Days of providing notice to HUD of the Due and
35 Payable event or receiving HUD approval when needed;
- 36 • comply with the required appraisal time frames;
- 37 • timely commence foreclosure, when applicable;

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2. Default Servicing

- 1 • timely provide notice to HUD after commencing foreclosure, meeting
- 2 reasonable diligence requirements, or meeting reporting requirements,
- 3 pursuant to [Appendix 5](#); and
- 4 • timely file claims for payment of insurance benefits.

5 The Mortgagee must self-curtail claims for failure to meet any of FHA’s requirements
6 or reasonable diligence time frames of 24 CFR §§ 206.125 and 206.127 except to the
7 extent those time frames are extended by HUD, as authorized by law. In that event,
8 the Mortgagee must self-curtail claims when they fail to comply within the extended
9 time. The Mortgagee must state the reason for curtailment in the “Mortgagee
10 Comments” section of the claim in [HERMIT](#).

11 If the Mortgagee does not self-curtail when reasonable diligence time frames are not
12 met, the Mortgagee must fully document in HERMIT the reasons for delays that were
13 outside of the Mortgagee’s control.

14 **(G) Reporting Use of Mortgagee Extension**

15 If applicable, the Mortgagee must enter the expiration date of the 90-Day extension
16 period in the block identified for extensions in the claim in [HERMIT](#) and note the use
17 of the extension in the “Mortgagee’s Comments” section.

18 **ii. Acquired Property Claims (Claim Type 21)**

19 **Date of Marketable Title for HECM Claims**

20 The Mortgagee must use the latter of the following in determining the “Date of
21 Possession and Acquisition of Marketable Title” on the claim:

- 22 • the date of possession, including when eviction is required;
- 23 • the date of the foreclosure sale;
- 24 • the date title is obtained by a third-party bidder; or
- 25 • the date the redemption period, if applicable, has ended.

26 **iii. Assignment Claims (Claim Type 22)**

27 The Mortgagee may file a HECM Assignment Claim (Claim Type 22) upon successful
28 [assignment](#) of a HECM to HUD.

29 **iv. Short Sale Claims (Claim Type 23)**

30 The Mortgagee may file a HECM Short Sale Claim (Claim Type 23) in cases where:

- 31 • the Borrower sold the Property, but the sales proceeds were insufficient to satisfy
32 the HECM, provided:
 - 33 ○ the Property was sold for at least the current appraised value if the HECM was
34 not Due and Payable; or

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

2. Default Servicing

- the Property was sold for at least 95 percent of the current appraised value if the HECM was Due and Payable; or
- the HECM was extinguished by sale or transfer after death or, if applicable, the end of a Deferral Period, provided the Mortgagee received, in exchange for the extinguishment of the HECM, at least the lesser of:
 - the HECM balance; or
 - 95 percent of the current appraised value of the Property.

(A) Claim Calculation – Case Number Assigned before September 19, 2017

The claim amount will include:

- the total of the following:
 - the HECM balance, including any accrued interest, MIP, and servicing fees that have been added to the HECM balance;
 - any accrued note rate interest, MIP, or servicing fees that have not been added to the HECM balance on the date the deed is recorded; and
 - the amount of allowances for items set forth in 24 CFR § 206.129(d)(3)(i)-(vii) and (d)(3)(xii) as applicable;
- less the proceeds received from the Borrower, the Borrower's estate, or heir;
- plus, if the short sale occurred after the initiation of foreclosure, the total of the items set forth in 24 CFR § 206.129 (d)(3)(vi) and (ix), as applicable.

The claim will also include debenture interest from the date the deed is recorded to the date when the claim is paid, providing the Mortgagee has complied with all applicable time frames required. Where the Mortgagee has failed to meet any of the applicable requirements within the specified time, or additional time approved by HUD, the interest allowance will be computed only to the date on which the particular action should have been taken or to which it was extended.

(B) Claim Calculation – Case Number Assigned on or after September 19, 2017

(1) HECM Not Due and Payable

When the HECM is not in Due and Payable status, the claim will include:

- the total of the following:
 - the HECM balance, including any accrued interest, MIP, and servicing fees that have been added to the HECM balance;
 - any accrued note rate interest, MIP, and servicing fees that have not been added to the HECM balance on the date the deed is recorded; and
 - allowable closing costs incurred in connection with the sale of the Property in an amount not to exceed the greater of 11 percent;
- less the proceeds received from the Borrower, the Borrower's estate, or heir.

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2. Default Servicing

1 The claim will also include debenture interest from the date the deed is recorded
2 to the date when the claim is paid, provided the Mortgagee has complied with all
3 applicable time frames required. Where the Mortgagee has failed to meet any of
4 the applicable requirements within the specified time, or additional time approved
5 by HUD, the interest allowance will be computed only to the date on which the
6 particular action should have been taken or to which it was extended.

7 **(2) HECM Due and Payable**

8 When the HECM is in Due and Payable status, the claim will include:

- 9
- 10 • the total of the following:
 - 11 ○ the HECM balance, including any accrued interest, MIP, and servicing
 - 12 fees that have been added to the HECM balance;
 - 13 ○ any accrued interest, MIP, and servicing fees that have not been added
 - 14 to the outstanding HECM balance as of the due date;
 - 15 ○ allowable closing costs incurred in connection with the sale of the
 - 16 Property in an amount not to exceed the greater of 11 percent or any
 - 17 fixed dollar amount as approved by HUD through the Federal Register
 - 18 notice as set forth in 24 CFR § 206.129 (d)(3)(xiii)(C); and
 - 19 ○ the remaining items set forth in 24 CFR § 206.129 (d)(3);
 - 20 • less the proceeds received from the Borrower, the Borrower's estate, or
heir.

21 The claim will also include debenture interest from the due date to the date the
22 claim is paid, providing the Mortgagee has complied with all applicable time
23 frames required. Where the Mortgagee has failed to meet any of the applicable
24 requirements of 24 CFR §§ 206.125 and 206.127 within the specified time
25 determined by the due date, or additional time approved by HUD, the interest
26 allowance will be computed only to the date on which the particular action should
27 have been taken or to which it was extended.

28 **v. Supplemental Claims (Claim Type 24)**

29 The Mortgagee may file one supplemental claim (Claim Type 24) to correct a previous
30 claim or to claim an item omitted in a previous claim. Where the Mortgagee wishes to
31 file a supplemental claim, the Mortgagee must submit such claim within six months of
32 the date the initial claim was paid.

1 **3. Programs and Products**

2 **a. Presidentially-Declared Major Disaster Areas**

3 **i. Disaster Declarations**

4 Under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, the
5 President has authority to declare a major disaster for any area which has been affected
6 by damage of sufficient severity and magnitude to warrant major disaster assistance.
7 Disaster declarations and information regarding available federal assistance for each
8 disaster incident are posted on the [Federal Emergency Management Agency's \(FEMA\)](#)
9 [website](#).

10 Whenever the President declares a major disaster, the Mortgagee must implement the
11 procedures set forth in this section for each designated area that is eligible for federal
12 disaster assistance.

13 **ii. Moratorium on Foreclosures**

14 **(A) Standard**

15 The Mortgagee must observe a moratorium on foreclosures of FHA-insured HECMs
16 secured by Properties located in Presidentially-Declared Major Disaster Areas
17 (PMDMA) following the disaster declaration. The foreclosure moratorium is:

- 18 • applicable only if the HECM is Due and Payable for reasons other than the
19 death of the last remaining Borrower and is not subject to a Deferral Period;
- 20 • effective for a 90-Day period beginning on the date of the disaster declaration
21 for that area (HUD may communicate further specific guidance for extension
22 of moratorium periods for individual disasters);
- 23 • applicable to the initiation of foreclosures and foreclosures already in process;
24 and
- 25 • considered an additional period of time approved by HUD for the Mortgagee
26 to take loss mitigation action or commence foreclosure.

27 Where foreclosure has not been initiated, the Mortgagee may submit a request for an
28 extension to HUD's foreclosure-related deadlines through Home Equity Reverse
29 Mortgage Information Technology ([HERMIT](#)) when prohibited from performing a
30 required activity due to the foreclosure moratorium.

31 **(B) Required Documentation**

32 The Mortgagee must retain in its Claim Review File any approved extensions from
33 HUD related to a foreclosure moratorium. Where foreclosure was initiated prior to
34 the effective date of the moratorium, the Mortgagee must retain in its Claim Review
35 File documentation of any delay to the Reasonable Diligence Time Frame related to a
36 foreclosure moratorium.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

1 **(C) Hazard or Flood Insurance Settlement**

2 The Mortgagee must take no action to initiate or complete foreclosure proceedings,
3 after expiration of a disaster-related foreclosure moratorium, if such action will
4 jeopardize the full recovery of a hazard or flood insurance settlement.

5 **iii. Monitoring of Repairs to Substantially Damaged Homes**

6 **(A) Definition**

7 A building is considered to be “Substantially Damaged,” as defined in the National
8 Flood Insurance Program (NFIP) regulations, when “damage of any origin is
9 sustained by a structure whereby the cost of restoring the structure to its before
10 damaged condition would equal or exceed 50 percent of the market value of the
11 structure before the damage occurred.”

12 **(B) Standard**

13 The Mortgagee must take appropriate actions to ensure that repairs to Substantially
14 Damaged Properties comply with the federal building elevation standards, including
15 those established by FEMA. The Mortgagee must ensure compliance with any higher
16 applicable building elevation standard adopted by the state or local government.

17 **b. Mortgagee Optional Election Assignment**

18 The Mortgagee Optional Election (MOE) provides the Mortgagee an option to assign the
19 HECM or foreclose in accordance with the terms of the HECM. The option is available for
20 cases with an FHA case number assigned prior to August 4, 2014 and associated with an
21 Eligible Surviving Non-Borrowing Spouse (NBS).

22 A MOE Assignment claim is the only alternative path to claim payment outside of existing
23 regulations for HECMs with FHA case numbers assigned prior to August 4, 2014; no other
24 alternative path to claim payment exists.

25 The Mortgagee may elect to proceed in accordance with the amendment provided by this
26 section, which provides for a MOE Assignment of an eligible HECM immediately after the
27 death of the last surviving Borrower or upon a Borrower’s residence in a health care facility
28 for more than 12 consecutive months, provided all of the conditions and requirements
29 established in this section are satisfied. If the Mortgagee elects the MOE Assignment option,
30 the Mortgagee must adhere to the guidance herein.

31 Alternatively, the Mortgagee may elect to enforce its private contractual rights in accordance
32 with the terms of the Note, security instrument, or HECM loan agreement. If the Mortgagee
33 elects to foreclose in accordance with the terms of the HECM, the Mortgagee must adhere to
34 HUD’s [Due and Payable](#) policies.

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

1 i. Definitions

2 HECM Borrower refers to the original Borrower under a Note and Mortgage. The term
3 does not include successors or assigns of a Borrower.

4 MOE Assignment Deferral Period refers to the period of time following the death of the
5 last surviving Borrower for an eligible HECM with an FHA case number assigned prior
6 to August 4, 2014, and associated with an Eligible Surviving NBS, during which time the
7 Due and Payable status of a HECM is deferred based on the continued satisfaction of the
8 requirements for an Eligible Surviving NBS under this section and all other FHA
9 requirements.

10 Non-Borrowing Spouse (NBS) refers to the spouse of a HECM Borrower who is not also
11 a Borrower.

12 Eligible Surviving Non-Borrowing Spouse (NBS), for the purpose of MOE Assignment,
13 refers to an NBS of a HECM Borrower where the HECM was assigned an FHA case
14 number prior to August 4, 2014 and meets the [eligibility requirements](#) identified by
15 HUD.

16 Principal Residence refers to the dwelling where the Borrower and, if applicable, an NBS
17 maintain their permanent place of abode, and typically spend the majority of the calendar
18 year. A person may have only one Principal Residence at any one time and the Property
19 is considered to be the Principal Residence:

- 20 • of any Borrower who is temporarily in a health care institution provided the
21 Borrower's confinement to a health care institution does not exceed 12
22 consecutive months;
- 23 • of any NBS who is temporarily in a health care institution, as long as the Property
24 is the Principal Residence of their Borrower spouse, who physically resides in the
25 Property;
- 26 • of any NBS who occupies the property as their Principal Residence, when the
27 Borrower resides in a health care institution for a length of time; and
- 28 • during a MOE Assignment Deferral Period of the NBS, who is temporarily in a
29 health care institution, provided the Eligible Surviving NBS physically occupied
30 the Property immediately prior to entering the health care institution and such
31 confinement does not exceed 12 consecutive months.

32 Due and Payable Date, for purposes of MOE claim payment, refers to the date when a
33 Mortgagee notifies HUD that it has determined not to utilize the MOE Assignment or has
34 determined that the HECM is not eligible for assignment.

35 **Ability to Purchase or Sell**

36 After the death of the last HECM Borrower, an NBS may elect to satisfy the HECM and
37 retain the Property securing the HECM for the lesser of the unpaid principal balance or
38 95 percent of the Property's appraised value.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

1 Regardless of the presence of any NBS, the Property securing the HECM may be sold by
2 the Borrower's estate for the lesser of the unpaid principal balance or 95 percent of the
3 Property's appraised value.

4 Nothing in this section may be construed as interrupting or interfering with the ability of
5 the Borrower's estate to dispose of the Property if they are otherwise legally entitled to
6 do so.

7 Regardless of a Mortgagee's election under this section, the Mortgagee may provide any
8 Eligible Surviving NBS or the HECM Borrower's estate with an opportunity to purchase
9 or to market and sell the Property in accordance with HUD's [due and payable](#) policies.

10 ii. Standard

11 (A) Required Notifications

12 (1) Notification to Borrower of Assignment

13 When a HECM with an FHA case number assigned before August 4, 2014
14 reaches 98 percent of the Maximum Claim Amount (MCA) prior to the death of
15 the last surviving Borrower and the Mortgagee exercises its option to assign the
16 HECM to the Secretary, the Mortgagee must notify the Borrower:

- 17 • that the HECM is being assigned to the Secretary;
- 18 • that if the Borrower is married to an NBS, the NBS may be eligible for a
19 Deferral Period provided the qualifications of an Eligible Surviving NBS
20 are met and all of the conditions and requirements for a Deferral Period
21 are, and continue to be, met; and
- 22 • of the requirements for an Eligible Surviving NBS as well as the
23 conditions and requirements for an applicable Deferral Period.

24 (2) Notice of Election to Eligible Surviving Non-Borrowing Spouse and/or 25 Borrower's Estate

26 Within 30 Days after the Mortgagee's election to either pursue a MOE
27 Assignment or foreclose, the Mortgagee must provide notice based on the election
28 made under this section.

29 If the Mortgagee elects to pursue a MOE Assignment, the Mortgagee must
30 provide the eligibility requirements to the Eligible Surviving NBS and Borrower's
31 estate.

32 If the Mortgagee elects to pursue foreclosure, the Mortgagee must inform the
33 Eligible Surviving NBS and the Borrower's estate that the Mortgagee will provide
34 a period not to exceed six months during which the Eligible Surviving NBS or the
35 Borrower's estate may satisfy the HECM or market and sell the Property in
36 accordance with this section.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

(3) Notification to HUD of Borrower's Death

Within 60 Days of the Borrower's death, the Mortgagee must notify HUD, via [HERMIT](#), that the HECM is eligible to be called Due and Payable under the original terms of the HECM entered into between the Mortgagee and the HECM Borrower.

(4) Mortgagee Optional Election to Assign for HECMs with Case Numbers Assigned before August 4, 2014

For cases where the last surviving Borrower is survived by an NBS, the Mortgagee must enter the Borrower's date of death in [HERMIT](#) and then follow the requirements and conditions for the [Mortgagee Optional Election](#) to assign.

Where the Mortgagee elects to pursue a MOE Assignment, the Mortgagee must **not** complete the Due and Payable timeline in [HERMIT](#) until such time as the Deferral Period ends.

Where the Mortgagee elects to foreclose in accordance with the terms of the HECM, the Mortgagee must complete the appropriate Due and Payable timeline in order to provide HUD the required notification.

(B) Mortgagee Election of MOE Assignment

To notify HUD of its election to pursue a MOE Assignment, the Mortgagee must upload into [HERMIT](#) a statement of such election on company letterhead, at which time the HECM will begin a [Deferral Period](#).

(C) MOE Assessment

The Mortgagee must perform an assessment to determine whether the NBS and the HECM meet the [eligibility requirements](#) for a MOE Assignment.

iii. Eligibility Requirements for MOE Assignment

(A) Non-Borrowing Spouse Eligibility Requirements

Where the Mortgagee has made the MOE Assignment election, an NBS of a HECM Borrower is an Eligible Surviving NBS when the NBS:

- was either:
 - legally married, as determined by the law of the state in which the spouse and Borrower reside(d) or the state of celebration, to the HECM Borrower at the time of HECM closing and remained married to the HECM Borrower until the HECM Borrower's death; or
 - engaged in a committed relationship with the Borrower akin to marriage but was prohibited, at the time of HECM origination, from legally

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1 marrying the HECM Borrower based on the gender of both the Borrower
2 and the NBS, but was legally married prior to the death of the Borrower,
3 as determined by the law of the state in which the spouse and the
4 Borrower reside(d) or the state of celebration, to the HECM Borrower and:

- 5 ▪ remained married until the HECM Borrower's death; or
- 6 ▪ remains married to the HECM Borrower, in situations in which the
7 HECM Borrower has resided in a health care institution for more than
8 12 consecutive months; and
- 9 • currently resides and resided in the Property secured by the HECM as their
10 Principal Residence at origination of the HECM and throughout the duration
11 of the HECM Borrower's life.

12 (B) HECM Eligibility Requirements for MOE Assignment to HUD

13 Where the Mortgagee has made the MOE Assignment election, only a HECM that
14 satisfies the following requirements can be assigned:

- 15 • the HECM was assigned an FHA case number prior to August 4, 2014;
- 16 • there is an Eligible Surviving NBS;
- 17 • the Eligible Surviving NBS agrees to certify annually that all eligibility
18 requirements continue to be satisfied;
- 19 • the HECM is not in default or eligible to be called Due and Payable for any
20 reason other than the death of the last surviving HECM Borrower;
- 21 • there are no allegations or claims that would invalidate the HECM or any such
22 allegations or claims have been judicially resolved in favor of the Mortgagee;
- 23 • the Mortgagee has taken all steps necessary to ensure the HECM remains a
24 valid and legally enforceable first lien under state law and no statute of
25 limitations or other barrier exists to the exercising of rights to gain good,
26 marketable title under the HECM;
- 27 • the Mortgagee agrees to indemnify the Secretary for any loss incurred as a
28 result of any impediment to the Secretary obtaining good and marketable title,
29 unless such loss is solely due to acts of the Secretary after assignment; and
- 30 • the Mortgagee has obtained all required information, certifications, and
31 agreements from any Eligible Surviving NBS and any other necessary party as
32 set forth herein.

33 A HECM that is subject to a pre-existing loss mitigation Repayment Plan for unpaid
34 Property Charges must be brought current on all Property Charges within 120 Days
35 following the death of the last surviving Borrower.

36 iv. MOE Assignment Process and Documentation Requirements

37 A Mortgagee may not assign a HECM to HUD where the MOE Assignment Deferral
38 Period has ceased, but may assign a HECM after the MOE Assignment Deferral Period
39 has been reinstated in accordance with [Termination and Reinstatement of the MOE](#)

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1 [Assignment Deferral Period](#). The Mortgagee must initiate the [MOE Assignment process](#)
2 through [HERMIT](#).

3 **(A) Modification of Contract Prior to MOE Assignment**

4 The Mortgagee must ensure that appropriate protections are put in place to ensure a
5 valid, legally enforceable first lien will be assigned to HUD, which may include a
6 modification of the HECM documents to provide the following provisions:

- 7 • a deferral of the Due and Payable status that ordinarily results from the death
8 of the last surviving Borrower;
- 9 • the deferral must immediately cease upon the earliest occurrence of:
 - 10 ○ the death of any such Eligible Surviving NBS;
 - 11 ○ an Eligible Surviving NBS ceases to satisfy the definition requirements; or
 - 12 ○ the occurrence of an event besides death that would make the HECM
13 eligible to be called Due and Payable;
- 14 • an obligation of any Eligible Surviving NBS to continue to meet all contractual
15 obligations of the HECM Borrower;
- 16 • an obligation of any Eligible Surviving NBS to meet the certification and
17 other requirements; and
- 18 • an express waiver of any right to any Disbursement under the HECM Note,
19 security agreement, and loan agreement.

20 The Mortgagee must take whatever action necessary, including modification if the
21 Mortgagee deems it necessary, to preserve its ability to foreclose on the HECM
22 should any of the following occur before the assignment to the Secretary has been
23 completed:

- 24 • the NBS dies;
- 25 • the MOE Assignment Deferral Period ends; or
- 26 • any event of default, other than the death of the Borrower, occurs.

27 **(B) Required Certifications**

28 **(1) MOE Assignment Required Mortgagee Certification**

29 The Mortgagee must certify at assignment to the following:

30 “I, _____, as authorized representative of _____, the Mortgagee, certify that I
31 have personally reviewed the HECM documents as well as the information
32 provided by _____, the Eligible Surviving Non-Borrowing Spouse, and certify
33 that the following are true and correct:

- 34 1. The HECM is not eligible to be called Due and Payable for any reason
35 other than in the case of the death of the last surviving Borrower or
36 non-occupancy because the borrower has resided in a health care

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

- 1 facility for more than 12 consecutive months and all other obligations
2 of the HECM Borrower have been and continue to be met;
- 3 2. There are no allegations or claims that would invalidate the HECM
4 or any such allegations or claims have been judicially resolved in
5 favor of the Mortgagee;
- 6 3. There is a valid, legally enforceable first lien with no impediments to
7 securing good, marketable title;
- 8 4. [Insert as applicable based on Mortgagee’s election: The HECM
9 note, security agreement, and loan agreement have been modified
10 establishing the conditions and requirements for the deferral of Due
11 and Payable status as well as obligating any Eligible Surviving Non-
12 Borrowing Spouse to continue to meet all contractual obligations and
13 expressly waiving any right to any disbursements under the HECM
14 note, security agreement, and the loan agreement]; and
- 15 5. I have determined that there [is/are] (#) Eligible Surviving Non-
16 Borrowing Spouse(s), identified as [insert names], and have obtained
17 all required information, acknowledgements, agreements, and
18 certifications from such Eligible Surviving Non-Borrowing
19 Spouse(s). I certify that the information provided in connection with
20 this assignment is true and correct. I hereby agree on behalf of the
21 Mortgagee that it will indemnify the Secretary for any amounts paid
22 pursuant to this election should any of the information provided
23 prove false. Further, I hereby agree on behalf of the Mortgagee that it
24 will indemnify the Secretary any amounts paid pursuant to this
25 election in the event the Secretary is subsequently impeded from
26 obtaining good and marketable title as a result of the Mortgagee’s
27 failure to assign a valid, legally enforceable first lien.”

28 *WARNING: Federal law provides that anyone who knowingly or willfully*
29 *makes or uses a document containing any false, fictitious, or fraudulent*
30 *statement or entry may be criminally prosecuted and may incur civil*
31 *administrative liability.*

32 (2) Optional Revision to Mortgagee Certification

33 Where a Mortgagee is unable, due to state law requirements, to truthfully certify
34 to item number three in the Mortgagee Certification, the optional language that
35 may be used is as follows:

- 36 3. “At assignment, there is a valid, legally enforceable first lien with no
37 impediments to securing good, marketable title, and upon assignment,
38 the Secretary will have a valid, legally enforceable first lien with no
39 impediments to securing good and marketable title.”

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B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

1 Additionally, where a Mortgagee is unable, due to state law, to certify using the
2 aforementioned language as is written, the Mortgagee may use the language
3 below in lieu of the last sentence in the Mortgagee Certification:

4 “Further, I hereby agree on behalf of the Mortgagee that it will indemnify the
5 Secretary for any amounts paid pursuant to this election in the event the
6 Secretary is subsequently impeded from obtaining good and marketable title
7 as a result of the Secretary’s inability to enforce a valid, legally enforceable
8 first lien.”

9 **(3) MOE Assignment Required Eligible Surviving Non-Borrowing Spouse** 10 **Certification at MOE Assignment Election**

11 The Mortgagee must obtain a signed agreement, acknowledgement, and
12 certification at assignment from any Eligible Surviving NBS verifying the
13 established conditions and requirements are met.

14 The agreement, acknowledgement, and certification must state:

15 “I hereby agree, acknowledge, and certify that I was married to and remained
16 married to _____, a HECM Borrower, at the time the HECM was
17 originated and throughout the remainder of their life. I certify that the
18 information provided in this agreement, acknowledgement, and certification is
19 true and correct. I acknowledge that my spouse’s HECM is currently eligible
20 to be called Due and Payable under the original terms of the HECM contract
21 as a result of [his/her] death and that the Mortgagee is electing to assign my
22 spouse’s HECM to FHA. I further acknowledge and agree that if assignment
23 is accepted, the HECM will not be called Due and Payable until my death or
24 such time as I cease to be eligible for a deferral. As a result, I acknowledge
25 that I will be permitted to remain in the property until my death provided I
26 continue to comply with the terms of this agreement and certification. I further
27 understand and agree that in order to qualify for a deferral of Due and Payable
28 status, I must:

- 29 1. disclose and provide consent to the verification of my Social Security
30 Number;
- 31 2. continue to occupy the property securing my spouse’s HECM as
32 my principal residence;
- 33 3. acknowledge and agree that I will receive no disbursements from
34 my spouse’s HECM;
- 35 4. ensure that all obligations of the HECM Borrower continue to be
36 satisfied without reliance on any disbursement from the HECM,
37 including the obligation to pay property charges and insurance even
38 if the HECM would have allowed for the payment of these charges
39 from the available proceeds;

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

- 1 5. ensure the HECM is not and will not become eligible to be Due
2 and Payable for any reason other than the death of the last
3 surviving Borrower or non-occupancy because the borrower has
4 resided in a health care facility for more than 12 consecutive
5 months;
- 6 6. annually certify that all conditions necessary for assignment are
7 and continue to be met; and
- 8 7. provide any documentation required by the Mortgagee to evidence
9 my compliance with the requirements of the assignment and deferral
10 of Due and Payable status.

11 I agree and acknowledge that should any of these obligations cease to be met
12 the Deferral Period shall cease, my spouse's HECM will immediately become
13 Due and Payable, and, as a result, I must satisfy the HECM in accordance
14 with existing HUD policy in order to remain in the property further.”

15 *WARNING: Federal law provides that anyone who knowingly or willfully*
16 *makes or uses a document containing any false, fictitious, or fraudulent*
17 *statement or entry may be criminally prosecuted and may incur civil*
18 *administrative liability.*

19 **(C) Required Documentation**

20 The Mortgagee must secure the following information, certifications, and enforceable
21 agreements and provide documentation of such with the assignment:

- 22 • any Eligible Surviving NBS's Social Security Number (SSN);
- 23 • that the Property is and has been, since the origination of the HECM, the
24 Principal Residence of any Eligible Surviving NBS, and obtain a written
25 agreement from such Eligible Surviving NBS that they will continue to
26 occupy the Property securing the HECM as their Principal Residence;
- 27 • that all obligations of the HECM Borrower(s) contained in the HECM
28 documents have been and continue to be satisfied, and obtain a written
29 agreement from any Eligible Surviving NBS to continue to satisfy the
30 obligations of the HECM Borrower(s);
- 31 • written acknowledgement and agreement from the Eligible Surviving NBS that
32 no further Disbursements under the HECM are required to be or will be made;
- 33 • written acknowledgement and agreement from the Eligible Surviving NBS
34 that the HECM may immediately be called Due and Payable if any event of
35 default other than the death of the last surviving Borrower or non-occupancy
36 because the Borrower has resided in a health care facility for more than 12
37 consecutive months occurs at any time; and
- 38 • written acknowledgement and agreement from any Eligible Surviving NBS
39 that the HECM will become immediately Due and Payable should the Eligible
40 Surviving NBS cease to meet any of the eligibility requirements, conditions
41 for acceptance, or ongoing obligations under the HECM.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

v. Termination and Reinstatement of the MOE Assignment Deferral Period

If an NBS fails to meet, or ceases to meet at any time, the definition of an Eligible Surviving NBS, the MOE Assignment Deferral Period terminates immediately and there is no opportunity to cure the failure to meet this required definition.

When the MOE Assignment Deferral Period ceases or is determined to be unavailable solely because the HECM is eligible to be called Due and Payable for a reason other than the death of the Borrower, the Mortgagee must provide an Eligible Surviving NBS 30 Days to cure the default and reinstate the MOE Assignment Deferral Period as follows:

- all defaults must be cured in fact within the time period permitted; a default is not cured by entering into a Repayment Plan;
- if the default is cured within such time, the MOE Assignment Deferral Period must be reinstated, unless:
 - a reinstatement of the MOE Assignment Deferral Period has occurred within the past two years immediately preceding the current notification to the Eligible Surviving NBS that the HECM is Due and Payable;
 - reinstatement of the MOE Assignment Deferral Period will preclude foreclosure if the HECM becomes Due and Payable at a later date; or
 - reinstatement of the MOE Assignment Deferral Period will adversely affect the priority of the HECM lien;
- if the default is not cured within such time, the Mortgagee must proceed in accordance with the established time frames to initiate foreclosure and reasonable diligence in prosecuting foreclosure as required by 24 CFR § 206.125 and all other regulations and requirements if it wishes to perfect its claim for insurance benefits; and
- even after a foreclosure proceeding begins, an Eligible Surviving NBS may cure the condition which resulted in the MOE Assignment Deferral Period ceasing, thus reinstating the HECM and MOE Assignment Deferral Period and allowing the mortgage insurance to remain in effect. The Mortgagee may require the Eligible Surviving NBS to pay any costs that the Mortgagee incurred to reinstate the HECM, including foreclosure costs and reasonable attorney's fees. Such costs may not be added to the HECM balance and must be paid from some other source of funds. Such reinstatement is solely at the election of the Mortgagee.

The Mortgagee may refuse to reinstate the HECM and the MOE Assignment Deferral Period if:

- the Mortgagee has accepted a reinstatement of either the MOE Assignment Deferral Period or HECM within the past two years immediately preceding the current notification to the Eligible Surviving NBS that the HECM is Due and Payable;
- reinstatement of either the MOE Assignment Deferral Period or HECM will preclude foreclosure if the HECM becomes Due and Payable at a later date; or
- reinstatement of either the MOE Assignment Deferral Period or HECM will adversely affect the priority of the HECM lien.

III. Servicing and Loss Mitigation

B. Title II Insured Housing Programs Home Equity Conversion Mortgages

3. Programs and Products - Mortgagee Optional Election Assignment

1 **vi. MOE Assignment Claim Payment**

2 A MOE Assignment claim will be calculated and paid in the same manner as a standard
3 assignment claim.

DRAFT

- 1 **APPENDIX 1.0 – MORTGAGE INSURANCE PREMIUMS**
- 2 **APPENDIX 2.0 – ANALYZING IRS FORMS**

DRAFT

1 **APPENDIX 3.0 – POST-ENDORSEMENT FEES AND CHARGES BY HOC (APPLIES TO SERVICING**
 2 **ONLY)**

3 **Philadelphia HOC**

Type of Service	CT	DE	DC	ME	MD	MA	MI	NH	NJ	NY
Substitution of Hazard Insurance Policy	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Returned Check*	\$25	\$15	\$15	\$25	\$15	\$25	\$20	\$25	\$20	\$20
Modification of performing Mortgage	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Modification of the mortgaged Property	\$100	\$110	\$110	\$100	\$110	\$100	\$150	\$100	\$100	\$100
Incorporating a Borrower’s name change into the Servicer’s loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Closing Disclosure**	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Amortization Schedule**	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15
Replacement Coupon Books	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Verification of Mortgage	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
Copy of Year-End Statement	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Transmittal of Payoff Statement via Facsimile	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Additional Payoff Statements***	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10

4 * Unless prohibited by the Borrower’s bank, the Mortgagee must present the check for payment twice before it can be deemed “uncollectible” when returned unpaid.

Appendix 3.0 – Post-Endorsement Fees and Charges by HOC (Applies to Servicing Only)

1
2

**other than the statement or schedule provided at closing
*** after two payoff statements have been provided free of charge for the calendar year

Type of Service	OH	PA	RI	VT	VA	WV
Substitution of Hazard Insurance Policy	\$10	\$10	\$10	\$10	\$10	\$10
Returned Check*	\$20	\$15	\$25	\$25	\$15	\$15
Modification of performing Mortgage	\$50	\$50	\$50	\$50	\$50	\$50
Modification of the mortgaged Property	\$100	\$110	\$100	\$100	\$110	\$110
Incorporating a Borrower’s name change into the Servicer’s loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Closing Disclosure**	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Amortization Schedule**	\$15	\$15	\$15	\$15	\$15	\$15
Replacement Coupon Books	\$5	\$5	\$5	\$5	\$5	\$5
Verification of Mortgage	\$20	\$20	\$20	\$20	\$20	\$20
Copy of Year-End Statement	\$5	\$5	\$5	\$5	\$5	\$5
Transmittal of Payoff Statement via Facsimile	\$5	\$5	\$5	\$5	\$5	\$5
Additional Payoff Statements***	\$10	\$10	\$10	\$10	\$10	\$10

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* Unless prohibited by the Borrower’s bank, the Mortgagee must present the check for payment twice before it can be deemed “uncollectible” when returned unpaid.
**other than the statement or schedule provided at closing
*** after two payoff statements have been provided free of charge for the calendar year

Appendix 3.0 – Post-Endorsement Fees and Charges by HOC (Applies to Servicing Only)

1

Atlanta HOC

Type of Service	AL	FL	GA	KY	IL	IN	MS	NC	PR	SC
Substitution of Hazard Insurance Policy	\$10	\$15	\$10	\$10	\$10	\$10	\$7.50	\$7.50	\$10	\$15
Returned Check*	\$10	\$20	\$15	\$15	\$20	\$25	\$15	\$15	\$10	\$20
Modification of performing Mortgage	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Modification of the mortgaged Property	\$100	\$100	\$125	\$100	\$100	\$100	\$100	\$150	\$100	\$100
Incorporating a Borrower’s name change into the Servicer’s loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Closing Disclosure**	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Amortization Schedule**	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15
Replacement Coupon Books	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Verification of Mortgage	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
Copy of Year-End Statement	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Transmittal of Payoff Statement via Facsimile	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Additional Payoff Statements***	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10

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* Unless prohibited by the Borrower’s bank, the Mortgagee must present the check for payment twice before it can be deemed “uncollectible” when returned unpaid.
 **other than the statement or schedule provided at closing
 *** after two payoff statements have been provided free of charge for the calendar year

Appendix 3.0 – Post-Endorsement Fees and Charges by HOC (Applies to Servicing Only)

Type of Service	TN	VI
Substitution of Hazard Insurance Policy	\$7.50	\$10
Returned Check*	\$20	\$10
Modification of performing Mortgage	\$50	\$50
Modification of the mortgaged Property	\$150	\$100
Incorporating a Borrower’s name change into the Servicer’s loan system	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge
Copy of Mortgage Note	\$10	\$10
Copy of Closing Disclosure**	\$10	\$10
Copy of Amortization Schedule**	\$15	\$15
Replacement Coupon Books	\$5	\$5
Verification of Mortgage	\$20	\$20
Copy of Year-End Statement	\$5	\$5
Transmittal of Payoff Statement via Facsimile	\$5	\$5
Additional Payoff Statements***	\$10	\$10

* Unless prohibited by the Borrower’s bank, the Mortgagee must present the check for payment twice before it can be deemed “uncollectible” when returned unpaid.

**other than the statement or schedule provided at closing

*** after two payoff statements have been provided free of charge for the calendar year

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Appendix 3.0 – Post-Endorsement Fees and Charges by HOC (Applies to Servicing Only)

1

Denver HOC

Type of Service	AR	CO	IA	KS	LA	MO	MN	MT	NE	NM
Substitution of Hazard Insurance Policy	\$10	\$10.50	\$10	\$10	\$10	\$10	\$10	\$10.50	\$10	\$10
Returned Check*	\$25	\$15	\$15	\$15	\$25	\$15	\$20	\$15	\$15	\$15
Modification of performing Mortgage	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Modification of the mortgaged Property	\$110	\$100	\$100	\$100	\$110	\$100	\$100	\$100	\$100	\$110
Incorporating a Borrower’s name change into the Servicer’s loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Closing Disclosure**	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Amortization Schedule**	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15
Replacement Coupon Books	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Verification of Mortgage	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
Copy of Year-End Statement	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Transmittal of Payoff Statement via Facsimile	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Additional Payoff Statements***	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10

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* Unless prohibited by the Borrower’s bank, the Mortgagee must present the check for payment twice before it can be deemed “uncollectible” when returned unpaid.

**other than the statement or schedule provided at closing

*** after two payoff statements have been provided free of charge for the calendar year

Appendix 3.0 – Post-Endorsement Fees and Charges by HOC (Applies to Servicing Only)

Type of Service	ND	OK	SD	TX	WI	WY	UT
Substitution of Hazard Insurance Policy	\$10.50	\$10	\$10.50	\$10	\$10	\$10.50	\$10.50
Returned Check*	\$15	\$25	\$15	\$25	\$20	\$15	\$15
Modification of performing Mortgage	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Modification of the mortgaged Property	\$100	\$110	\$100	\$110	\$100	\$100	\$100
Incorporating a Borrower’s name change into the Servicer’s loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Closing Disclosure**	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Amortization Schedule**	\$15	\$15	\$15	\$15	\$15	\$15	\$15
Replacement Coupon Books	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Verification of Mortgage	\$20	\$20	\$20	\$20	\$20	\$20	\$20
Copy of Year-End Statement	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Transmittal of Payoff Statement via Facsimile	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Additional Payoff Statements***	\$10	\$10	\$10	\$10	\$10	\$10	\$10

* Unless prohibited by the Borrower’s bank, the Mortgagee must present the check for payment twice before it can be deemed “uncollectible” when returned unpaid.

**other than the statement or schedule provided at closing

*** after two payoff statements have been provided free of charge for the calendar year

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Appendix 3.0 – Post-Endorsement Fees and Charges by HOC (Applies to Servicing Only)

1

Santa Ana HOC

Type of Service	AK	AZ	CA	HI	ID	NV	OR	WA	Pacific Islands
Substitution of Hazard Insurance Policy	\$15	\$10	\$10	\$10	\$15	\$10	\$15	\$15	\$10
Returned Check*	\$15	\$15	\$15	\$15	\$20	\$15	\$15	\$15	\$15
Modification of performing Mortgage	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Modification of the mortgaged Property	\$125	\$100	\$100	\$100	\$125	\$100	\$125	\$125	\$100
Incorporating a Borrower’s name change into the Servicer’s loan system	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Re-analyzing escrow accounts and providing new coupon books	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge
Copy of Mortgage Note	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Closing Disclosure**	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Copy of Amortization Schedule**	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15
Replacement Coupon Books	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Verification of Mortgage	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20
Copy of Year-End Statement	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Transmittal of Payoff Statement via Facsimile	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5
Additional Payoff Statements***	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10

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* Unless prohibited by the Borrower’s bank, the Mortgagee must present the check for payment twice before it can be deemed “uncollectible” when returned unpaid.
 **other than the statement or schedule provided at closing
 *** after two payoff statements have been provided free of charge for the calendar year

1 **APPENDIX 4.0 – HUD SCHEDULE OF STANDARD ATTORNEY FEES**
 2 **(APPLIES TO SERVICING ONLY)**

3 **APPENDIX 5.0 - FIRST LEGAL ACTIONS TO INITIATE FORECLOSURE**
 4 **AND REASONABLE DILIGENCE TIME FRAMES (APPLIES TO**
 5 **SERVICING ONLY)**

State Code	State	Typical Type of HUD Security Instrument	Normal Method of Foreclosure	First Legal Action to Initiate Foreclosure	Reasonable Diligence Time Frame (in months)
01	Alabama	Mortgage	Non-Judicial	Publication	6
11	Alaska	Deed of Trust	Non-Judicial	Recording of Notice of Default	10
02	Arizona	Deed of Trust	Non-Judicial	Recording of Notice of Sale	6
03	Arkansas	Deed of Trust	Non-Judicial	Recording of Notice of Sale	11
04	California	Deed of Trust	Non-Judicial	Recording of Notice of Default	12
05	Colorado	Deed of Trust	Non-Judicial	Filing of Foreclosure Documents with Public Trustee	12
06	Connecticut	Mortgage	Judicial	Delivering Complaint to Sheriff	21
07	Delaware	Mortgage	Judicial	Complaint	26
08	District of Columbia ¹	Deed of Trust	Non-Judicial	Notice of Default Mayor	7
		Deed of Trust	Judicial	Complaint	7
09	Florida	Mortgage	Judicial	Complaint	25
10	Georgia	Security Deed	Non-Judicial	Publication	6
83	Guam	Mortgage	Non-Judicial	Posting and Publishing of Notice of Sale	11
14	Hawaii	Mortgage	Judicial	Complaint	30
		Mortgage	Non-Judicial	Publication of Notice of Intent to Foreclose	6
12	Idaho	Deed of Trust	Non-Judicial	Recording of Notice of Default	13
13	Illinois	Mortgage	Judicial	Complaint	17
15	Indiana	Mortgage	Judicial	Complaint	13
16	Iowa	Mortgage	Judicial	Petition	17

Appendix 5.0 - First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time frames (Applies to Servicing Only)

State Code	State	Typical Type of HUD Security Instrument	Normal Method of Foreclosure	First Legal Action to Initiate Foreclosure	Reasonable Diligence Time Frame (in months)
		Deed of Trust	Non-Judicial	Filing of Notice or Voluntary Foreclosure Agreement with Recorder	9
18	Kansas	Mortgage	Judicial	Complaint	10
20	Kentucky	Mortgage	Judicial	Complaint	14
22	Louisiana	Mortgage	Judicial	Petition for Executory Process	12
23	Maine	Mortgage	Judicial	Complaint	27
24	Maryland	Mortgage	Judicial	Complaint	18
		Deed of Trust	Non-Judicial	Filing an Order to Docket	18
25	Massachusetts	Mortgage	Non-Judicial	Filing of Complaint ²	9
26	Michigan	Mortgage	Non-Judicial	Publication	9
27	Minnesota	Mortgage Deed	Non-Judicial	Publication	10
28	Mississippi	Deed of Trust	Non-Judicial	Publication	9
29	Missouri	Deed of Trust	Non-Judicial	Publication	5
31	Montana	Trust Indenture	Non-Judicial	Recording of Notice of Sale	9
32	Nebraska	Mortgage	Judicial	Petition	8
		Deed of Trust	Non-Judicial	Publication of Notice of Sale	8
33	Nevada	Deed of Trust	Non-Judicial	Recording of Notice of Default	24
34	New Hampshire	Mortgage	Non-Judicial	Publication	11
35	New Jersey	Mortgage	Judicial	Complaint	19
36	New Mexico	Mortgage	Judicial	Complaint	25
37	New York City	Mortgage	Judicial	Complaint	27
	New York	Mortgage	Judicial	Complaint	21
38	North Carolina	Deed of Trust	Non-Judicial	Notice of Hearing	9
40	North Dakota	Mortgage	Judicial	Complaint	15
41	Ohio	Mortgage Deed	Judicial	Complaint	13
42	Oklahoma	Mortgage	Judicial	Petition	14

Appendix 5.0 - First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time frames (Applies to Servicing Only)

State Code	State	Typical Type of HUD Security Instrument	Normal Method of Foreclosure	First Legal Action to Initiate Foreclosure	Reasonable Diligence Time Frame (in months)
43	Oregon	Deed of Trust	Non-Judicial	Recording of Notice of Default	30
44	Pennsylvania	Mortgage	Judicial	Complaint	21
50	Puerto Rico	Mortgage	Judicial	Complaint	21
45	Rhode Island	Mortgage	Non-Judicial	Publication	22
46	South Carolina	Mortgage	Judicial	Complaint	14
47	South Dakota	Mortgage	Judicial	Complaint	14
		Deed of Trust	Non-Judicial	Publication of Notice of Sale	9
48	Tennessee	Deed of Trust	Non-Judicial	Publication	6
49	Texas	Deed of Trust	Non-Judicial	Posting and Filing of the Notice of Sale	8
52	Utah	Mortgage	Judicial	Complaint	12
		Deed of Trust	Non-Judicial	Recording of Notice of Default	12
53	Vermont	Mortgage	Judicial	Complaint	24
54	Virginia	Deed of Trust	Non-Judicial	Publication	7
82	Virgin Islands	Mortgage	Judicial	Complaint	15
56	Washington	Deed of Trust	Non-Judicial	Recording of Notice of Trustee's Sale	18
57	West Virginia	Deed of Trust	Non-Judicial	Publication	7
58	Wisconsin	Mortgage	Judicial	Complaint	12
59	Wyoming	Mortgage	Non-Judicial	Publication	7

1 Footnotes:

- 2 1. Loans secured by a Deed of Trust are normally foreclosed using non-judicial procedures provided in D.C.
3 Code § 42-815. Mortgagees may elect to foreclose using judicial procedures established pursuant D.C.
4 Code § 42-816 instead when it is determined to be warranted for a particular Mortgage.
5 2. The Mortgagee must first obtain a Judgment from the Land Court verifying that the Borrowers are not
6 entitled to relief under the Servicemembers Civil Relief Act (SCRA).

1 **APPENDIX 6.0 - PROPERTY PRESERVATION ALLOWANCES AND**
 2 **SCHEDULES (APPLIES TO SERVICING ONLY)**

3 **A. MAXIMUM PROPERTY PRESERVATION ALLOWANCES**

CLAIM SUBMISSION AND DOCUMENTATION COSTS	
Maximum Property Preservation Allowance	\$5,000
Photographs	Maximum \$30 per property
Local Requirements (Vacant Property Registration)	Actual cost to register and comply with all VPR ordinance requirements (provide supporting documentation)
INSPECTIONS	
Initial Inspection	\$20/\$15 per each additional unit
Occupancy Inspections	\$20/\$15 per each additional unit
Vacant Inspections (Ongoing) <ul style="list-style-type: none"> • Initial Vacant Property Inspection (One time) • Ongoing Inspections 	\$35/\$15 per each additional unit \$20/\$15 per each additional unit
SECURING THE PROPERTY	
Emergency Contact Information Posting	
Emergency Contact Posting including Address Posting	\$10 one time reimbursement
Lockbox, including duplicate HUD coded keys	\$40 one time reimbursement
Locksets	
Lockset replacement – Front or Main Entranceway	\$60 per door/door set
Lockset replacement – other than above	\$20 each
Re-keying	\$10 per keyhole
Padlock/Hasp Installation	\$40 each
Doors	
Replace Exterior Door – Pre-Hung Steel	\$800 each
Replace Overhead Door	\$800 single bay door \$1,000 double bay door
Repair Overhead Door	\$100 maximum per property
Glazing/Windows	
Re-Glazing	\$1.50 per United Inch (U.I.) (Length (in.) of one side + Width (in.) of one side = Total U.I.)
Window Lock Replacement	\$5 each; maximum \$50 per property
Door slider lock, anti-lift blocks, security bars	\$25 each

Appendix 6.0 - Property Preservation Allowances and Schedules (Applies to Servicing Only)

Boarding/Securing of doors and windows	
Boarding/Securing Materials	\$.90 per U.I.
Swimming Pools, Spas, and Hot Tubs	
Swimming Pool Securing – In-ground	Maximum \$1,250 for all work, including cover installation
Swimming Pool Securing – Above ground	Maximum \$500 for all work, including cover installation
Spa and Hot-tub Securing	Maximum \$50 for all work, including cover installation
Swimming Pool Draining	Maximum \$300 per property
Above Ground Swimming Pool Removal	Maximum \$500 per property
Swimming Pool Maintenance	Maximum \$100 monthly
Winterization	
Dry Winterization	Maximum \$100 each unit
Wet/Steam Winterization	Maximum \$150
Wet/Steam Winterization – additional unit	Maximum \$90
Radiant Winterization	Maximum \$250
Radiant Winterization – additional unit	Maximum \$125
Reduced Pressure Zone (RPZ) Valves	Maximum \$150, where required by state or local law
Swimming Pools and Spas	Maximum \$200 per property per 12-month period
Re-winterization	\$50 each occurrence
Utilities, Power Supply, Water Supply, Gas Supply	
Electricity, Gas, Oil, Propane, Water and Sewer	Actual cost – one time shut off/transfer fee as assessed by local utility entities
Water well closing and disconnection	\$80 for all work required – one time shut-off per property
Initial water line pressure testing	\$20
Wire Capping	\$1 each; maximum \$25 per property
Water, Sewer, or Gas Capping	\$15 each; maximum \$90 per property
Smoke Detectors – when required by AHJ	\$15 each
CO2 Monitor – when required by AHJ	\$25 each
Roof Assembly Repair	
Temporary Roof Repair/Tarpping	Maximum \$600 per property
Permanent Roof Repair/Patching	Maximum \$1,000 per property
Chimney Capping	Maximum \$100 each
Foundation Drainage Systems and Basements	
Basement Water Pumping	Maximum \$500 per property
Gutter Cleaning and Repair	\$1 per linear foot (LF); Maximum \$100 per property

Appendix 6.0 - Property Preservation Allowances and Schedules (Applies to Servicing Only)

Gutter Replacement (missing sections only)	\$4.70 per LF; Maximum \$400 per property
Molds, Fungus, Discoloration and Related Moisture Damage and Organic Growth	
Dehumidifier Purchase and Installation	Maximum \$250 each
Absorbent Moisture Desiccants	\$20 each; maximum \$100 per 12 month period
Mold Treatment including Medium Removal, mold inhibitor chemicals, mold inhibiting paints	\$300 Maximum per property
Sump Pumps	
Sump Pump Replacement/Installation	Maximum \$300 per property
Sump Pump Repair	Maximum \$50
Debris Removal, Cleaning, and Minor Repair	
Debris Removal, Interior and Exterior	Maximum \$1,250
Debris Removal, Interior and Exterior – additional waste	\$50 per cubic yard (CY)
Broom Swept Cleaning	\$50
Refrigerator and Freezer Cleaning	\$50
Toilet Cleaning	\$50
Clothes Dryer Vent Cover Installation	\$ 20 each
Pest Extermination (professional services with documented need)	Maximum \$300 (provide payment evidence)
Pest Extermination (Over-the-counter products)	\$30 each; maximum \$90 per 12 month period
Dead Animal Removal	\$50 per occurrence
Vehicle/Boat Removal	Maximum \$210 per vehicle
Fencing Repair	\$300 for all work required
Handrails	\$10 per lineal foot (LF) Maximum \$200 per property
Carpet Removal including removal of tack strips	\$.20 per square foot (SF) Maximum \$400 per property
Demolition of Dilapidated/Unsafe Outbuildings and Sheds	\$1.00 per square foot; Maximum \$400 per property
Professional reports (Hazardous material identification and testing) - Reimbursement for positive results only	Maximum \$1,100 per property
Police and Fire Reports	\$20 each
Personal Property Storage	
Storage and disposition	Maximum \$300 per property
MAINTENANCE	
Yard Maintenance	
Initial Desert Landscaping Maintenance	Maximum \$300
Re-Cut Desert Landscaping Maintenance	Maximum \$200 per 12 month period
Grass Cuts	Refer Attachment B
Tree Trimming	Maximum \$250 per 12 month period

Shrub Trimming	Maximum \$200 per 12 month period
Snow Removal	
Snow/Ice Removal	Maximum \$75 per occurrence
Utilities	
Utility Costs	Actual costs as invoiced by power and utility entities

1 **B. WINTERIZATION SCHEDULE**

Required Winterization Period	State or Territory
All Year	Alaska
September 1 through April 30	Colorado; Connecticut; Idaho; Illinois; Indiana Iowa; Maine; Massachusetts; Michigan; Minnesota; Montana; Nebraska; New Hampshire; New Jersey; New York; North Dakota; Ohio; Oregon; Pennsylvania; Rhode Island; South Dakota; Vermont; Washington; Wisconsin; Wyoming
October 1 through March 31	Alabama; Arizona; Arkansas; California; Delaware; Florida; Georgia; Kansas; Kentucky; Louisiana; Maryland; Mississippi; Missouri; Nevada; New Mexico; North Carolina; Oklahoma; South Carolina; Tennessee; Texas; Utah; Virginia; West Virginia; Washington, DC
Winterization not required	Hawaii; Guam; Northern Mariana Islands; American Samoa; Puerto Rico; U.S. Virgin Islands

2 **C. GRASS CUT SCHEDULE**

State or Territory	Initial Cut (1 - 10,000 sf)	Initial Cut (10,001 sf - 20,000 sf)	Re-cuts (1 - 10,000 sf)	Re-cuts (10,001 sf - 20,000 sf)
NOTE: Add \$25 for each additional 10,000 sf for properties greater than 20,000 sf				
ALL YEAR: ONCE PER MONTH				
Arizona	\$75	\$95	\$70	\$90
Nevada	\$90	\$110	\$85	\$105
New Mexico	\$85	\$105	\$80	\$100
ALL YEAR: TWICE PER MONTH				
California	\$100	\$120	\$95	\$115
Florida	\$85	\$105	\$80	\$100
Hawaii	\$110	\$130	\$105	\$125
Guam, MP, AS	\$110	\$130	\$105	\$125
Puerto Rico	\$110	\$130	\$105	\$125

Appendix 6.0 - Property Preservation Allowances and Schedules (Applies to Servicing Only)

State or Territory	Initial Cut (1 - 10,000 sf)	Initial Cut (10,001 sf - 20,000 sf)	Re-cuts (1 - 10,000 sf)	Re-cuts (10,001 sf - 20,000 sf)
U.S. Virgin Islands	\$85	\$105	\$80	\$100
APRIL 1 TO OCTOBER 31: ONCE PER MONTH				
Colorado	\$85	\$105	\$80	\$100
Utah	\$85	\$105	\$80	\$100
Wyoming	\$85	\$105	\$80	\$100
APRIL 1 TO OCTOBER 31: TWICE PER MONTH				
Arkansas	\$70	\$90	\$65	\$85
Connecticut	\$100	\$120	\$95	\$115
Delaware	\$95	\$125	\$90	\$120
Idaho	\$100	\$120	\$95	\$115
Illinois	\$85	\$105	\$80	\$100
Indiana	\$85	\$105	\$80	\$100
Iowa	\$85	\$105	\$80	\$100
Kansas	\$85	\$105	\$80	\$100
Kentucky	\$85	\$105	\$80	\$100
Maine	\$100	\$120	\$95	\$115
Maryland	\$100	\$120	\$95	\$115
Massachusetts	\$100	\$120	\$95	\$115
Michigan	\$85	\$105	\$80	\$100
Minnesota	\$85	\$105	\$80	\$100
Missouri	\$85	\$105	\$80	\$100
Montana	\$85	\$105	\$80	\$100
Nebraska	\$85	\$105	\$80	\$100
New Hampshire	\$100	\$120	\$95	\$115
New Jersey	\$100	\$120	\$95	\$115
New York	\$100	\$120	\$95	\$115
North Carolina	\$85	\$105	\$80	\$100
North Dakota	\$85	\$105	\$80	\$100
Ohio	\$85	\$105	\$80	\$100
Oklahoma	\$85	\$105	\$80	\$100
Oregon	\$100	\$120	\$95	\$115
Pennsylvania	\$95	\$115	\$90	\$110
Rhode Island	\$100	\$120	\$95	\$115
South Dakota	\$85	\$105	\$80	\$100
Tennessee	\$85	\$105	\$80	\$100
Vermont	\$100	\$120	\$95	\$115
Virginia	\$95	\$115	\$90	\$110
Washington	\$100	\$120	\$95	\$115
West Virginia	\$95	\$115	\$90	\$110
Wisconsin	\$85	\$105	\$80	\$100
Washington DC	\$95	\$115	\$90	\$110

Appendix 6.0 - Property Preservation Allowances and Schedules (Applies to Servicing Only)

State or Territory	Initial Cut (1 - 10,000 sf)	Initial Cut (10,001 sf - 20,000 sf)	Re-cuts (1 - 10,000 sf)	Re-cuts (10,001 sf - 20,000 sf)
MARCH 1 TO NOVEMBER 30: TWICE PER MONTH				
Alabama	\$70	\$90	\$65	\$85
Georgia	\$85	\$105	\$80	\$100
Louisiana	\$85	\$105	\$80	\$100
Mississippi	\$85	\$105	\$80	\$100
South Carolina	\$85	\$105	\$80	\$100
Texas	\$85	\$105	\$80	\$100
JUNE 1 TO SEPTEMBER 30: TWICE PER MONTH				
Alaska	\$100	\$120	\$95	\$115

1

1 **FHA Single Family Housing Policy Handbook**

2 **GLOSSARY**

3 **30-Day Account**

4 A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off the
5 outstanding balance on the account every month.

6
7 **30-Day Advance Prepayment Notice Period**

8 The 30-Day Advance Prepayment Notice Period refers to the time requirement for the Borrower
9 to provide advance notice to the Mortgagee for prepayment of an FHA-insured Mortgage insured
10 prior to August 2, 1985.

11
12 **90-Day Review**

13 The 90-Day Review is a Mortgagee's required evaluation, occurring before four monthly
14 installments are due and unpaid, of a Defaulted Mortgage for appropriate Loss Mitigation
15 Options.

16
17 **Acceptable Conveyance Condition**

18 An Acceptable Conveyance Condition refers to the required condition of a Property at the time
19 of conveyance to HUD.

20
21 **Accessory Dwelling Unit (ADU)**

22 An Accessory Dwelling Unit (ADU) refers to a habitable living unit added to, created within, or
23 detached from a primary one-unit Single Family dwelling, which together constitute a single
24 interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and
25 bathroom facilities.

26
27 **Acquisition Cost**

28 The Acquisition Cost is the purchase price of the Property, including closing costs, prepaid costs,
29 and commissions, if paid by the purchaser, but not including the cost of any repairs that the
30 purchaser makes to the Property subsequent to acquisition.

31
32 **Active Duty**

33 Active Duty refers to a status where a person has a full-time military occupation.

34
35 **Adequate Vehicular Access**

36 Adequate Vehicular Access to Property refers to an all-weather road surface over which
37 emergency and typical passenger vehicles can pass at all times.

38
39 **Adjustable Rate Mortgage (ARM)**

40 An Adjustable Rate Mortgage (ARM) refers to a Mortgage in which the interest rate can change
41 annually based on an index plus a margin.

1 **Adjusted As-Is Value (applicable to 203(k) only)**

2 For purchase transactions, the Adjusted As-Is Value refers to the lesser of:

- 3 • the purchase price less any inducements to purchase; or
4 • the As-Is Property Value.
5

6 For Refinance transactions, the Mortgagee must obtain an as-is appraisal to determine the
7 Adjusted As-Is Value when the existing debt on the Property plus the cost of repairs exceeds the
8 After Improved Value, or the Property was acquired within 12 months of the case number
9 assignment date.

10
11 For Properties acquired greater than or equal to 12 months prior to the case number assignment
12 date:

- 13 • When an appraisal is obtained, the Adjusted As-Is Value is the As-Is Property Value.
14 • When the existing debt on the Property plus the cost of repairs does not exceed the after-
15 improved value, the Mortgagee has the option of using the existing debt plus fees
16 associated with the new Mortgage or obtaining an as-is appraisal to determine the
17 Adjusted As-Is Value.
18

19 For Properties acquired within 12 months of the case number assignment date, an as-is appraisal
20 must be obtained. The Adjusted As-Is Value is the As-Is Property Value.
21

22 For Properties acquired by the Borrower within 12 months of the case number assignment date
23 by inheritance or through a gift from a Family Member, the Mortgagee may utilize the
24 calculation of Adjusted As-Is Value for Properties acquired greater than or equal to 12 months
25 prior to the case number assignment date.
26

27 **Adjusted Value (not for 203(k) Mortgages)**

28 For purchase transactions, the Adjusted Value is the lesser of:

- 29 • purchase price less any inducements to purchase; or
30 • the Property Value.
31

32 For refinance transactions:

- 33 • For Properties acquired by the Borrower within 12 months of the case number
34 assignment date, the Adjusted Value is the lesser of:
35 ○ the Borrower's purchase price, plus any documented improvements made
36 subsequent to the purchase; or
37 ○ the Property Value.
38 • Properties acquired by the Borrower within 12 months of case number assignment by
39 inheritance or through a gift from a Family Member may utilize the calculation of
40 Adjusted Value for Properties purchased 12 months or greater.
41 • For Properties acquired by the Borrower greater than or equal to 12 months prior to the
42 case number assignment date, the Adjusted Value is the Property Value.
43

1 **Advertising Device**

2 An Advertising Device is a channel or instrument used to solicit, promote or advertise FHA
3 products or programs. Advertising Devices are present in the entire range of electronic and print
4 media utilized by Mortgagees, including, but not limited to, websites, website addresses,
5 business names, aliases, DBA names, domain names, email addresses, direct mail
6 advertisements, solicitations, promotional materials and correspondence.
7

8 **Affiliate**

9 An Affiliate is a contractor, agent, vendor, subservicer, or Sponsored Third-Party Originator
10 (TPO) who participates in FHA programs on behalf of an FHA-approved Mortgagee.
11

12 **Affordable Housing Program Plan (AHPP)**

13 Affordable Housing Program Plan (AHPP) refers to a program plan, as described in a written
14 proposal submitted to FHA, operated by a nonprofit in specific geographical areas in which the
15 nonprofit provides affordable homeownership opportunities for low- to moderate-income buyers
16 by purchasing, rehabilitating, and reselling HUD Homes to these buyers. The program can
17 include other homeownership activities, such as counseling.
18

19 **After Improved Value**

20 After Improved Value refers to the value as determined by the Appraiser based on a hypothetical
21 condition that the repairs or alterations have been completed.
22

23 **Alimony, Child Support, and Maintenance**

24 Alimony, Child Support, and Maintenance are court-ordered or otherwise agreed upon payments.
25

26 **Alimony, Child Support, and Maintenance Income**

27 Alimony, Child Support, and Maintenance Income refers to income received from a former
28 spouse or partner or from a non-custodial parent of the Borrower's minor dependent.
29

30 **Annuity Income**

31 Annuity Income refers to a fixed sum of money periodically paid to the Borrower from a source
32 other than employment.
33

34 **Appraisal Conditions**

35 Appraisal Conditions refer to anything the Appraiser requires to occur or be known before the
36 value of conclusion can be considered valid.
37

38 **Appraiser**

39 Appraiser refers to an FHA Roster Appraiser who observes, analyzes, and reports the physical
40 and economic characteristics of a Property and provides an opinion of value to FHA. An
41 Appraiser's observation is limited to readily observable conditions and is not as comprehensive
42 an inspection as one performed by a licensed home inspector.
43

44 **Appropriate Homeownership Center (HOC)**

45 The Appropriate Homeownership Center ([HOC jurisdiction](#)) is determined by the location of the
46 Property securing the FHA Mortgage.

- 1
2 **Approved Condominium Project**
3 Approved Condominium Project refers to a Condominium Project that meets FHA
4 Condominium Project Approval requirements as determined by review under DELRAP or
5 HRAP.
6
7 **Approved Mortgage**
8 An Approved Mortgage is a Mortgage underwritten and approved by a Direct Endorsement (DE)
9 underwriter, or covered by a firm commitment issued by HUD.
10
11 **Arm’s Length Pre-Foreclosure Sale (PFS) Transaction**
12 An Arm’s Length Pre-Foreclosure Sale (PFS) Transaction is between two unrelated parties that
13 is characterized by a selling price and other conditions that would prevail in an open market
14 environment and without hidden terms or special understandings existing between any of the
15 parties involved in the transaction.
16
17 **Arm’s Length Transaction**
18 An Arm’s Length Transaction refers to a transaction between unrelated parties who are each
19 acting in their own best interest.
20
21 **Articles of Organization**
22 Articles of Organization refers to articles of incorporation, charter, articles of association,
23 constitution, trust instrument, or any other written instrument by which an organization is
24 created.
25
26 **As-Is Property Value (applicable to 203(k) only)**
27 As-Is Property Value refers to the Adjusted As-Is Value as determined by the FHA Roster
28 Appraiser except in the case of Property Flipping.
29
30 **Authoritative Copy**
31 The Authoritative Copy refers to the controlling reference copy. The Authoritative Copy of an
32 electronically signed document refers to the electronic record that is designated by the
33 Mortgagee or holder as the controlling reference copy.
34
35 **Authorized Third Party**
36 Authorized Third Parties are parties who are not Borrowers on the Mortgage/HECM but who are
37 authorized to communicate with Mortgagees regarding a Mortgage/HECM.
38
39 **Automobile Allowance**
40 Automobile Allowance refers to the funds provided by the Borrower’s employer for automobile
41 related expenses.
42
43 **Base Loan Amount**
44 The Base Loan Amount is the mortgage amount prior to the addition of any financed Upfront
45 Mortgage Insurance Premium (UFMIP). Unless otherwise stated in this *SF Handbook*, all

1 references to maximum mortgage amount or mortgage amount shall refer to the Base Loan
2 Amount.

3
4 **Basis Point (bps)**

5 A Basis Point (bps) is one one-hundredth of one percent.

6
7 **Boarder**

8 Boarder refers to an individual renting space inside the Borrower's Dwelling Unit.

9
10 **Bona Fide Tenant**

11 Bona Fide Tenant refers to a tenant who entered into a rental agreement before the foreclosure
12 sale who is not related to the previous owner, who negotiated the rental agreement at arm's
13 length, and who pays the fair market rent for the Property.

14
15 **Borrower**

16 Borrower refers to each and every Borrower on the mortgage application. The term Borrower
17 does not include a Cosigner.

18
19 **Borrower (applicable to HECMs only)**

20 See HECM Borrower.

21
22 **Borrower (applicable to Servicing)**

23 Borrower refers to the original Borrower who signs the Note and their heirs, executors,
24 administrators, assigns, and approved Substitute Borrowers. This includes any Borrower who is
25 occupying or not occupying the Property.

26
27 **Borrower's Advance**

28 Borrower's Advance refers to the funds advanced to the Borrower at the closing of a fixed rate
29 HECM.

30
31 **Bracketing**

32 Bracketing refers to selecting comparable properties with features that are superior to and
33 inferior to the subject features.

34
35 **Broom-swept Condition**

36 Broom-swept Condition is the condition of a Property that is, at a minimum, reasonably free of
37 dust and dirt and free of hazardous materials or conditions, Personal Property, and interior and
38 exterior debris.

39
40 **Business Formation Documents**

41 Business Formation Documents are an entity's articles of incorporation, bylaws, organization
42 charter, operating agreement, partnership agreement, and similar documentation.

43
44 **Business Relationship**

45 Business Relationship refers to an association between individuals or companies entered into for
46 commercial purposes.

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Cash for Keys

Cash for Keys is a monetary incentive offered to occupants for vacating the Property as an alternative to legal eviction after foreclosure.

Cash for Keys (applicable to HECMs only)

Cash for Keys refers to a monetary consideration offered as an incentive to expedite a DIL or as an alternative to legal eviction of Bona Fide Tenants after foreclosure.

Cash on Hand

Cash on Hand refers to cash held by the Borrower outside of a financial institution.

Cash Reserves

Cash Reserves include all non-retirement liquid assets available for withdrawal or liquidation from all financial institutions. Such accounts include, but are not limited to, the following:

- brokerage, mutual funds, checking, savings, money market or certificate of deposits, other depository accounts, and stocks;
- other equity instruments such as marketable debt of federal, state, or local governments, Government-Sponsored Enterprises, corporations and other businesses; and
- other securities and commodities (including futures, traded on an exchange or marketplace generally available to the public) for which values can be readily verified using Schedules B (Interest & Dividends), D (Capital Gains & Losses) and E (Supplemental Income & Loss) of the Borrower’s most recent federal tax return.

Certification Period

The Certification Period is the one-year period, beginning on the first day of the Mortgagee’s prior fiscal year and ending on the last calendar day thereof.

Change Date

The Change Date is the effective date of an adjustment to the interest rate, as shown in Paragraph 4(a) of the model Adjustable Rate Note form.

Change Request

A Change Request is the method of submitting information and/or business changes to FHA that requires FHA review and approval before acceptance. Any update or change that cannot be made by the Mortgagee directly is submitted as a Change Request.

Charge Off Account

A Charge Off Account refers to a Borrower’s loan or debt that has been written off by the creditor.

Child Support

See **Alimony, Child Support, and Maintenance Income**.

1 **Claims without Conveyance of Title (CWCOT)**

2 A Claim without Conveyance of Title (CWCOT) is a procedure under which the Mortgagee
3 attempts to secure a third party purchaser for the mortgaged Property so that conveyance to HUD
4 is not required in exchange for mortgage insurance benefits.

5
6 **Closing Agent**

7 A Closing Agent is the Entity responsible for conducting the closing of a HUD REO property
8 sales transaction, including submitting closing packages, and wiring sales proceeds to the U.S.
9 Treasury.

10
11 **Closing Date**

12 The Closing Date is the settlement date on the Closing Disclosure or similar legal document.
13 This is also known as the origination date.

14
15 **Closing Date (applicable to HECMS only)**

16 Closing Date refers to the date on which the Borrower signs the Note.

17
18 **Closing Disclosure**

19 Closing Disclosure refers to a form containing the final statement of loan terms and closing costs
20 that is required under the TILA-RESPA Integrated Disclosure Rule.

21
22 **Combination Inspector (CI)**

23 Combination Inspector (CI) or Residential Combination Inspector (RCI) refers to an inspector
24 that has met certification requirements as determined by the International Code Council (ICC).

25
26 **Combined Loan-to-Value (CLTV)**

27 The Combined Loan-to-Value (CLTV) is computed as the Base Loan Amount plus the
28 outstanding principal balance of all subordinate Mortgage(s) divided by the Adjusted Value.

29
30 **Combined Rate**

31 Combined Rate refers to the interest rate on the Mortgage plus the Mortgage Insurance Premium
32 rate.

33
34 **Commercial/Non-Residential Financial Independence**

35 Commercial/Non-Residential Financial Independence refers to the ability of the Residential
36 Space and Commercial/Non-Residential Space of the Condominium Project to be independently
37 sustainable such that neither portion of the Condominium Project is financially reliant on the
38 other.

39
40 **Commercial/Non-Residential Space**

41 Commercial/Non-Residential Space refers to floor area allocated to:

- 42
- 43 • retail and commercial square footage (excludes Live/Work Units);
 - 44 • multi-level parking garage square footage that is separate from multi-level parking garage
45 square footage allocated to residential Unit owners;
 - building common areas not reserved for the exclusive use of residential Unit owners; and

- 1 • any square footage that is owned by a private individual or Entity outside of the
2 Condominium Association.

3
4 **Commission Income**

5 Commission Income refers to income that is paid contingent upon the conducting of a business
6 transaction or the performance of a service.

7
8 **Commissioner's Adjusted Fair Market Value (CAFMV)**

9 The Commissioner's Adjusted Fair Market Value (CAFMV) is the estimate of the fair market
10 value of the mortgaged Property, less adjustments, which may include without limitation, HUD's
11 estimate of holding costs and resale costs that would be incurred if title to the mortgaged
12 Property were conveyed to HUD.

13
14 **Common Elements**

15 Common Elements refer to the Condominium Project's common areas and facilities including
16 underlying land and buildings, driveways, parking areas, elevators, outside hallways, recreation
17 and landscaped areas, and other elements described in the condominium declaration.

18
19 **Common Interest Housing Development (CIHD)**

20 A Common Interest Housing Development (CIHD) refers to a planned residential community that
21 may consist of Units within a two- to four-unit building and/or contain multiple housing types,
22 structured with different ownership interests, managed by a common Condominium Association or
23 HOA, and governed under one Declaration of Covenants, Conditions and Restrictions (CC&Rs).
24 The CIHD may share a variety of common amenities and services.

25
26 **Community Water System**

27 A Community Water System refers to a central system that is owned, operated and maintained
28 by a private corporation or a nonprofit property owners' association.

29
30 **Compensating Factors**

31 Compensating Factors refer to factors that may be used to justify approval of HECMs where the
32 Borrower does not meet the Residual Income standard.

33
34 **Complete Condominium Project**

35 Complete Condominium Project refers to a Condominium Project consisting of Units that are
36 Existing Less than One Year and that are ready for occupancy, including completion of all the
37 Infrastructure of the Condominium Project, and not subject to further rehabilitation or
38 construction.

39
40 **Complete Loss Mitigation Request**

41 A Complete Loss Mitigation Request is a request for loss mitigation assistance that contains all
42 information the Mortgagee requires from the Borrower in order to evaluate Loss Mitigation
43 Options.

1 **Complete Nonprofit Application**

2 A Complete Nonprofit Application refers to an application that satisfies all general application
3 requirements and all program specific application requirements for the programs in which the
4 nonprofit seeks approval.

6 **Conditional Direct Endorsement Lender Review and Approval Process (DELRAP)**

7 **Authority**

8 Conditional Direct Endorsement Lender Review and Approval Process (DELRAP) Authority
9 refers to the authority of a Mortgagee that has provided notice to FHA of its intent to participate
10 in DELRAP and requires the Mortgagee to submit all Condominium Project Approvals to FHA
11 for review.

13 **Condominium Association**

14 A Condominium Association refers to the organization, regardless of its formal legal name, that
15 consists of homeowners within a Condominium Project for the purpose of managing the financial
16 and common-area assets.

18 **Condominium Project**

19 A Condominium Project refers to a project in which one-family Dwelling Units are attached,
20 semi-detached, detached, or Manufactured Home units, and in which owners hold an undivided
21 interest in Common Elements.

23 **Condominium Project Approval**

24 Condominium Project Approval refers to the process to determine a Condominium Project's
25 compliance with FHA's Condominium Project Approval requirements.

27 **Condominium Unit (Unit)**

28 Condominium Unit (Unit) refers to real estate consisting of a one-family Dwelling Unit in a
29 Condominium Project.

31 **Conformed Copy**

32 A Conformed Copy is a copy that agrees with the original and all amendments to it.

34 **Contingency Reserve**

35 Contingency Reserve refers to funds that are set aside to cover unforeseen project costs.

37 **Continuous Income**

38 Continuous Income is income received by the Borrower that is reasonably likely to continue
39 from the date of the Mortgagee's loss mitigation evaluation through at least the next 12 months.

41 **Contract Execution Date**

42 Contract Execution Date refers to the date the contract has been executed by all parties.

44 **Control of the Condominium Association**

45 Control of the Condominium Association refers to the ability to directly or indirectly control,
46 direct, modify or veto any action of the Condominium Association.

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Contributory Value

Contributory Value refers to the change in the value of a Property as a whole, whether positive or negative, resulting from the addition or deletion of a property component.

Corporate Officer

A Corporate Officer of a Nonsupervised or Investing Mortgagee refers to a natural person who serves as one of the following positions for the Mortgagee: owner, President, Vice President in charge of managing or overseeing any aspect of the Mortgagee’s FHA business, Chief Operating Officer, Chief Financial Officer, Director, Corporate Secretary, Chief Executive Officer, General Counsel, Chairman of the Board, General Partner, or member or manager of an LLC.

A Corporate Officer of a Supervised or Government Mortgagee refers to a natural person who serves as one of the following positions for the Mortgagee: President, Vice President in charge of managing or overseeing any aspect of the Mortgagee’s FHA business, Chief Operating Officer, Chief Financial Officer, Director, Corporate Secretary, Chief Executive Officer, General Counsel, Chairman of the Board, General Partner, or specifically designated staff member(s) of a Government Mortgagee.

Cosigner

Cosigner refers to a third party to a debt that provides a guarantee that a debt will be repaid.

Cost Estimate

Cost Estimate refers to a breakdown of the cost for each proposed Work Item, prepared by a 203(k) Consultant.

Credit-qualifying Loans

Credit-qualifying Loans refer to any loan(s) (e.g., mortgage loan, consumer credit card, automobile, etc.) where one or more of the Borrowers have obtained and qualified for credit.

Current Index Figure

The Current Index Figure is:

- the most recent index figure available 30 Days before the date of each interest rate adjustment, for Mortgages closed before January 10, 2015, and
- the most recent figure available 45 days before the date of each interest rate adjustment, for Mortgages closed on or after January 10, 2015.

Data Plate

Data Plate refers to a paper document located on the interior of the Property that contains specific information about the unit and its manufacturer.

Date of Conversion

Date of Conversion refers to the date that the legal documents were recorded.

1 **Days**

2 Days refer to calendar Days.

3
4 **Decision Credit Score**

5 Decision Credit Score refers to the credit score selected from the credit repositories (i.e.,
6 Equifax, Trans Union, and Experian) for use when underwriting the loan. A “decision credit
7 score” is determined for each applicant according to the following rule: when three scores are
8 available (one from each repository), the median (middle) value is used; when only two are
9 available, the lesser of the two is chosen; when only one is available that score is used.

10
11 **Declining Market**

12 A Declining Market refers to any neighborhood, market area or region that demonstrates a
13 decline in prices or deterioration in other market conditions as evidenced by an oversupply of
14 existing inventory or extended marketing times.

15
16 **Deed-in-Lieu (DIL) of Foreclosure**

17 A Deed-in-Lieu (DIL) of Foreclosure is a Loss Mitigation Home Disposition Option in which a
18 Borrower voluntarily offers the deed as collateral Property to HUD in exchange for a release
19 from all obligations under the Mortgage.

20
21 **Deed-in-Lieu (DIL) of Foreclosure (applicable to HECMs only)**

22 A Deed-in-Lieu (DIL) of Foreclosure is an option for a property owner to deed a mortgaged
23 Property to the Mortgagee in lieu of the Mortgagee taking title through a foreclosure action.

24
25 **Deed Restriction**

26 A Deed Restriction refers to a private agreement that restricts the use of real estate in some way,
27 and is listed in the deed.

28
29 **Default**

30 A Mortgage is in Default when the Borrower fails to make any payment or to perform any other
31 obligation under the Mortgage for a period of 30 Days.

32
33 **Deferral Period**

34 A Deferral Period refers to the period of time following the death of the last surviving Borrower
35 during which the Due and Payable status of a HECM is deferred for an Eligible NBS provided
36 that the Qualifying Attributes and all other FHA requirements continue to be satisfied.

37
38 **Delinquent**

39 A Mortgage is Delinquent any time a Mortgage Payment is due and not paid.

40
41 **Detached Condominium Housing Project (DCHP)**

42 A Detached Condominium Housing Project (DCHP) refers to a Condominium Project that has
43 individual detached Single Family Dwelling Units, garage, and onsite improvements that are
44 owned and maintained by the homeowner. The ground beneath the residential improvements is
45 owned by the Condominium Association or Homeowners’ Association (HOA) or is under a long-
46 term leasehold interest and considered common area or limited common area.

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Direct Endorsement Lender Review and Approval Process (DELRAP)

Direct Endorsement Lender Review and Approval Process (DELRAP) refers to the review of a Condominium Project by a Mortgagee that has been granted DELRAP authority.

Direct Endorsement Lender Review and Approval Process (DELRAP) Test Case Phase

The Direct Endorsement Lender Review and Approval Process (DELRAP) Test Case Phase refers to the time period in which a Mortgagee with Conditional DELRAP Authority is required to submit Condominium Project Approvals to FHA for review.

Disbursement

Disbursement refers to the release of mortgage proceeds to the Borrower.

Disbursement Date

The Disbursement Date refers to the date the proceeds of the Mortgage/HECM are made available to the Borrower.

Disbursement Date (applicable to Claims)

The Disbursement Date, as applicable to claims, is the date the Mortgagee paid for an expense.

Disputed Derogatory Credit Account

Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

Distributive Share

A Distributive Share is a share of any excess earnings from the Mutual Mortgage Insurance Fund (MMIF) that may be distributed to a Borrower after mortgage insurance termination.

Due and Payable

Due and Payable refers to the point at which a HECM is considered to be in default under the terms of the HECM.

Due and Payable Date

Due and Payable Date refers to the date when the Mortgagee notifies or should have notified the Commissioner that the Mortgage is Due and Payable under the conditions stated in the Mortgage or the date that a Deferral Period ends, or the date the Commissioner approved a Due and Payable request submitted by the Mortgagee.

Dwelling Unit

Dwelling Unit refers to a single unit of residence for a household of one or more persons.

Early Payment Defaults

Early Payment Defaults refer to all Mortgages that become 60 Days Delinquent within the first six payments.

1 **Early Start Letter**

2 Early Start Letter refers to the document issued by the Mortgagee in response to a builder's
3 request to start construction before the appraisal is completed.
4

5 **Easement**

6 An Easement refers to an interest in land owned by another person, consisting of the right to use
7 or control the land, or an area above or below it, for a specific limited purpose.
8

9 **Economic Event**

10 Economic Event refers to any occurrence beyond the Borrower's control that results in loss of
11 employment, loss of income, or a combination of both, which causes a reduction in the
12 Borrower's household income of 20 percent or more for a period of at least six months.
13

14 **Effective Income**

15 Effective Income refers to income that may be used to qualify a Borrower for a Mortgage.
16

17 **Electronic Appraisal Delivery (EAD)**

18 The Electronic Appraisal Delivery (EAD) portal is a web-based platform where Mortgagees or
19 their designated third-party service providers electronically deliver FHA appraisal reports prior
20 to endorsement.
21

22 **Eligible Contractor**

23 Eligible Contractor refers to a contractor that meets all state and local licensing requirements
24 and, if applicable, federal certification requirements.
25

26 **Eligible Non-Borrowing Spouse (NBS)**

27 Eligible Non-Borrowing Spouse (NBS) refers to an NBS who meets all Qualifying Attributes for
28 a Deferral Period.
29

30 **Eligible Surviving Non-Borrowing Spouse (NBS)**

31 Eligible Surviving Non-Borrowing Spouse (NBS), for the purpose of MOE Assignment, refers to
32 an NBS of a HECM Borrower where the HECM was assigned an FHA case number prior to
33 August 4, 2014 and meets the eligibility requirements identified by HUD.
34

35 **Employer Assistance**

36 Employer Assistance refers to benefits provided by an employer to relocate the Borrower or
37 assist in the Borrower's housing purchase, including closing costs, Mortgage Insurance
38 Premiums, or any portion of the Minimum Required Investment.
39

40 **Employer Assistance (applicable to HECMs only)**

41 Employer Assistance refers to benefits provided by an employer to relocate the Borrower or
42 assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the
43 monetary investment. Employer Assistance does not include benefits provided by an employer
44 through secondary financing.
45

1 **Employer Housing Subsidy**

2 Employer Housing Subsidy refers to employer-provided mortgage assistance.

3

4 **Employment Authorization Document**

5 Employment Authorization Document refers to the form provided by the U.S. Citizenship and
6 Immigration Services (USCIS) that proves an individual is allowed to work in the United States
7 for a specific period of time.

8

9 **Employment Income**

10 Employment Income refers to income received as an employee of a business that is reported on
11 IRS Form W-2.

12

13 **Encroachment**

14 An Encroachment refers to an interference with or intrusion onto another's property.

15

16 **Entity**

17 Entity refers to a business Entity such as a corporation, trust, partnership, or sole proprietorship.

18

19 **Equivalent System**

20 A system equivalent to the Credit Alert Verification Reporting System (CAIVRS) provided by
21 HUD that Mortgagees may use to obtain information on delinquent Federal Debts from public
22 records, credit reports or other sources.

23

24 **Excess Land**

25 Excess Land refers to land that is not needed to serve or support the existing improvement. The
26 highest and best use of the Excess Land may or may not be the same as the highest and best use
27 of the improved parcel. Excess Land may have the potential to be sold separately.

28

29 **Excluded Parties**

30 Excluded Parties refer to business parties that have been suspended and/or debarred from further
31 participation in HUD and other federal government programs due to unethical business practice.

32

33 **Executed Special Forbearance (SFB) – Unemployment Agreement**

34 The Special Forbearance (SFB) – Unemployment Agreement is considered “executed” when:

- 35
- 36 • at least one of the Borrowers has signed and dated the Agreement;
 - 37 • the Agreement has been returned to the Mortgagee; and
 - 38 • the authorized Mortgagee representative has signed and dated the Agreement as well.

39

39 **Existing Construction**

40 Existing Construction refers to a Property that has been 100 percent complete for over one year
41 or has been completed for less than one year and was previously occupied. For Condominium
42 Projects, all phases must have been 100 percent complete for over one year.

43

1 **Existing Construction for Manufactured Housing**

2 Existing Construction for Manufactured Housing refers to a Manufactured Home that has been
3 permanently installed on a site for one year or more prior to the case number assignment date.
4

5 **Existing Less than One Year**

6 Existing Less than One Year refers to a Property that is 100 percent complete and has been
7 completed less than one year from the date of the issuance of the Certificate of Occupancy (CO)
8 or equivalent. The Property must have never been occupied.
9

10 **Expected Average Mortgage Interest Rate (Expected Rate)**

11 The Expected Average Mortgage Interest Rate (Expected Rate) refers to the interest rate used to
12 calculate the Principal Limit.
13

14 **Expected Income**

15 Expected Income refers to income from cost-of-living adjustments, performance raises, a new
16 job, or retirement that has not been, but will be received within 60 Days of mortgage closing.
17

18 **Extenuating Circumstances (applicable to HECMs only)**

19 Extenuating Circumstances refer to factors a Mortgagee may cite when the Borrower's credit
20 and/or property charge payment history does not meet the criteria described in the Satisfactory
21 Credit History and Satisfactory Property Charge Payment History sections.
22

23 **Externalities**

24 Externalities refer to off-site conditions that affect a Property's value.
25

26 **Family Member**

27 Family Member is defined as follows, regardless of actual or perceived sexual orientation,
28 gender identity, or legal marital status:

- 29 • child, parent, or grandparent;
 - 30 ○ a child is defined as a son, stepson, daughter, or stepdaughter;
 - 31 ○ a parent or grandparent includes a step-parent/grandparent or foster
32 parent/grandparent;
- 33 • spouse or domestic partner;
- 34 • legally adopted son or daughter, including a child who is placed with the Borrower by an
35 authorized agency for legal adoption;
- 36 • foster child;
- 37 • brother, stepbrother;
- 38 • sister, stepsister;
- 39 • uncle;
- 40 • aunt; or
- 41 • son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law
42 of the Borrower.
43

1 **Family-Owned Business Income**

2 Family-Owned Business Income refers to Employment Income earned from a business owned by
3 the Borrower's family, but in which the Borrower is not an owner.

4
5 **Federal Banking Agencies**

6 The Federal Banking Agencies are the Federal Reserve System (FRS), Federal Deposit Insurance
7 Corporation (FDIC), and the Credit Union Administration (NCUA).

8
9 **Federal Debt**

10 Federal Debt refers to debt owed to the federal government for which regular payments are being
11 made.

12
13 **Federal Tax Debt**

14 Federal Tax Debt refers to tax debt owed to the federal government for which regular payments
15 are required.

16
17 **Fee Simple**

18 Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.

19
20 **FHA-Home Affordable Modification Program (FHA-HAMP) Option**

21 The FHA-Home Affordable Modification Program (FHA-HAMP) Option is a Loss Mitigation
22 Option using one of the following to allow the Mortgage to be reinstated by establishing an
23 affordable monthly payment:

- 24 • Standalone Loan Modification
- 25 • Standalone Partial Claim
- 26 • Combination Loan Modification and Partial Claim

27
28 **FHA Insurance Concentration**

29 FHA Insurance Concentration refers to the number of FHA-insured Mortgages within a
30 Condominium Project.

31
32 **Fidelity Insurance**

33 Fidelity Insurance refers to insurance that protects the Condominium Association against
34 employee dishonesty, crime or other fraudulent acts conducted by one or more employees.

35
36 **Final Reconciliation**

37 Final Reconciliation refers to the process by which an Appraiser evaluates and selects from
38 among alternative conclusions to reach a final value estimate, and reports the results of the
39 analysis.

40
41 **Financial Controls (applicable to Condominiums only)**

42 Financial Controls refer to the financial policies and procedures that a Condominium Association
43 has in place to protect its funds from fraud and mismanagement.

1 **Financial Distress Event**

2 Financial Distress Event refers to a Condominium Project or builder/developer that has:

- 3
- 4 • sought protection under bankruptcy laws;
 - 5 • been placed into receivership (mandated or voluntary);
 - 6 • been subject to foreclosure or any seizure of assets by creditors; or
 - 7 • offered a Deed-in-Lieu (DIL) of Foreclosure.

8 **Financial Stability**

9 Financial Stability refers to the ability of the Condominium Association to meet the
10 Condominium Project's needs in the future through positive cash flow and adequately funded
11 reserves.

12

13 **Finding**

14 A Finding refers to a final determination of defect by the lender (for Title I), Mortgagee (for Title
15 II), or other participants, as applicable.

16

17 **First 12-Month Disbursement Period**

18 First 12-Month Disbursement Period refers to the period beginning on the day of closing and
19 ending on the day before the anniversary date of closing. When the day before the anniversary
20 date of closing falls on a federally observed holiday, Saturday, or Sunday, the end period will be
21 on the next business day.

22

23 **First-Time Vacant (FTV) Property Inspection**

24 A First-Time Vacant (FTV) Property Inspection is the first inspection performed by the
25 Mortgagee to ascertain the condition of a vacant or abandoned Property.

26

27 **Flood Insurance**

28 Flood Insurance refers to insurance that covers physical damage by floods.

29

30 **Follow-up Vacant Property Inspection**

31 A Follow-up Vacant Property Inspection is an inspection by the Mortgagee of a vacant or
32 abandoned Property that occurs every 25-35 Days after the FTV Property Inspection until the
33 mortgage Default is cured or until conveyance of the Property to HUD.

34

35 **Forbearance Plans**

36 Forbearance Plans refer to arrangements between a Mortgagee and Borrower that provide
37 specific terms for repayment and may allow for a period of reduced or suspended payments.

38

39 **Formal Forbearance Plans**

40 Formal Forbearance Plans are written agreements executed by one or more of the Borrowers,
41 allowing for reduced or suspended payments for a period greater than three months, but not more
42 than six months, unless otherwise authorized by HUD, and such plans may include specific terms
43 for repayment.

1 **Full Review**

2 Full Review refers to the verification and analysis of all required Condominium Project
3 Approval documentation.

4
5 **Fully Funded Life Expectancy Set-Aside (LESA) (applicable to HECMs only)**

6 Fully Funded Life Expectancy Set-Aside (LESA) refers to a portion of the Borrower's Principal
7 Limit that is designated for payment of property taxes, Hazard Insurance and, if applicable,
8 Flood Insurance for the estimated remainder of the Borrower's life expectancy. With a Fully
9 Funded LESA, the Mortgagee makes payments directly to the billing agency.

10
11 **Funding Date**

12 The Funding Date is the date the proceeds of the Mortgage are made available to the Borrower.

13
14 **Gifts (applicable to HECMs only)**

15 Gifts refer to the contributions of cash with no expectation of repayment.

16
17 **Government Mortgagee**

18 A Government Mortgagee is a federal, state, or municipal governmental agency, a Federal
19 Reserve Bank, a Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation
20 (FHLMC, or Freddie Mac), or the Federal National Mortgage Association (FNMA, or Fannie
21 Mae).

22
23 **Governmental Entity**

24 A Governmental Entity refers to any federal, state, or local government agency or
25 instrumentality. To be considered an instrumentality of the government, the Entity must be
26 established by a governmental body or with governmental approval or under special law to serve
27 a particular public purpose or designated by law (statute or court opinion). HUD deems Section
28 115 Entities to be instrumentalities of government for the purpose of providing secondary
29 financing.

30
31 **Grass Cuts**

32 Grass Cuts are the Property P&P actions of mowing, weeding, edge trimming, sweeping of all
33 paved areas, and removing all lawn clippings, related cuttings, and debris.

34
35 **Gross Living Area (GLA)**

36 Gross Living Area (GLA) refers to the total area of finished, above-grade Residential Space
37 calculated by measuring the outside perimeter of the Structure. It includes only finished,
38 habitable, above-grade living space.

39
40 **Grossing Up**

41 Grossing Up refers to the process of adjusting tax-exempt income upward by the effective tax
42 rate to compute an equivalent taxable income amount.

43
44 **Ground Rent**

45 Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made
46 by the ground lessee typically revert to the ground lessor at the end of the lease term.

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Gut Rehabilitation (Gut Rehab)

Gut Rehabilitation refers to the renovation of a Property down to the shell of the structure, including the replacement of all Heating, Ventilation and Air Conditioning (HVAC) and electrical components.

Hazard Insurance

Hazard Insurance refers to insurance coverage that compensates for physical damage by fire, wind, or natural occurrences.

HECM Borrower

HECM Borrower refers to the original Borrower under a Note and Mortgage. The term does not include successors or assigns of a Borrower.

HECM for Purchase

HECM for Purchase refers to a transaction where the Borrower uses the HECM to finance the purchase of an existing one- to four-unit residence where the Borrower will occupy one unit as their Principal Residence.

HECM Property

HECM Property refers to a Property that is either Existing Construction or New Construction which will serve as collateral for the HECM.

HECM-to-HECM Refinance (HECM Refinance)

HECM-to-HECM Refinance (HECM Refinance) refers to a new HECM where the proceeds will be used to pay off the property indebtedness of the current HECM and any existing eligible lien.

HECM Traditional

HECM Traditional refers to a transaction where a Borrower with legal title, leasehold interest, or possessory interest obtains a HECM to access equity in their current Principal Residence.

Holder (applicable to HECMs only)

The Mortgage Holder is the Entity who holds title to the FHA-insured HECM and has the right to enforce the mortgage agreement.

Home Disposition Option

Home Disposition Options are the Loss Mitigation Options of Pre-Foreclosure Sales (PFS) and Deed-in-Lieu (DIL).

Home Equity Conversion Mortgage (HECM)

A Home Equity Conversion Mortgage (HECM) refers to a non-recourse, reverse mortgage that allows a Borrower access to equity secured by the Principal Residence with no corresponding monthly mortgage payment.

1 **Home Equity Reverse Mortgage Information Technology (HERMIT) System**

2 The Home Equity Reverse Mortgage Information Technology (HERMIT) System refers to
3 HUD's HECM Servicing platform for collecting MIP, managing all servicing activities and
4 paying insurance claims. See the HERMIT User Guide for detailed information regarding using
5 the platform.

6
7 **Homeowners' Association (HOA)/Condominium Assessment**

8 A Homeowners' Association (HOA)/Condominium Assessment is a periodic payment required
9 of property owners by an HOA or condominium association.

10
11 **Homeowners' Association (HOA)/Condominium Fees**

12 Homeowners' Association (HOA)/Condominium Fees are HOA/Condominium Assessments
13 plus interest, Late Charges, collection/attorney fees, and other penalties.

14
15 **Homeownership and Opportunity for People Everywhere (HOPE) Grantee**

16 Homeownership and Opportunity for People Everywhere (HOPE) Grantee refers to an Entity
17 designated in the homeownership plan submitted by an applicant for an implementation grant
18 under the HOPE program.

19
20 **Housing Development Experience**

21 Housing Development Experience is defined as acquisition, rehabilitation, and sale to low-to-
22 moderate income persons.

23
24 **Housing Obligation/Mortgage Payment**

25 A Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or
26 Properties owned. For the purposes of servicing the Mortgage, Mortgage Payment refers to the
27 total monthly payment on the FHA-insured Mortgage.

28
29 **HUD-approved Nonprofit**

30 A HUD-approved Nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using
31 FHA mortgage insurance, purchase the Department's Real Estate Owned (REO) Properties
32 (HUD Homes) at a discount, and provide secondary financing.

33
34 **HUD Certification Label**

35 HUD Certification Label, also known as a HUD seal or HUD tag, refers to a two inch by four
36 inch aluminum plate permanently attached to Manufactured Housing.

37
38 **HUD Real Estate Owned (REO) Property**

39 A HUD Real Estate Owned (REO) Property, also known as a HUD Home or a HUD-owned
40 home, refers to a one- to four-unit residential Property acquired by HUD as a result of a
41 foreclosure or other means of acquisition on an FHA-insured Mortgage, whereby the Secretary
42 of HUD becomes the property owner and offers it for sale to recover the mortgage insurance
43 claim that HUD paid to the Mortgagee.

1 **HUD Review and Approval Process (HRAP)**

2 HUD Review and Approval Process (HRAP) refers to the submission of project applications to
3 FHA for approval.

4
5 **Identity of Interest**

6 Identity of Interest refers to a transaction between family members, business partners or other
7 business affiliates.

8
9 **Imminent Default**

10 A Borrower facing Imminent Default is defined as a Borrower who is current or less than 30
11 Days past due on their Mortgage Payment and is experiencing a significant, documented
12 reduction in income or some other hardship that will prevent them from making the next required
13 Mortgage Payment during the month that it is due.

14
15 **Indian Land**

16 Indian Land refers to those lands that are held by or for the benefit of Indian Tribes under some
17 restriction or with some attribute peculiar to the legal status of its owners.

18
19 **Indian Tribe**

20 Indian Tribe refers to any Indian or Alaskan native tribe, band, nation, or other organized group
21 or community of Indians or Alaskan natives recognized as eligible for the services provided to
22 Indians or Alaskan natives by the Secretary of Interior because of its status as such an Entity, or
23 that was an eligible recipient under Chapter 67 of title 31, United States Code, prior to the repeal
24 of this section.

25
26 **Individual Owner Concentration**

27 Individual Owner Concentration refers to the percentage of Units owned by a single owner or
28 Related Party.

29
30 **Individual Property Files**

31 Individual Property Files refer to files that Governmental Entities and HUD-approved Nonprofits
32 participating in the HUD Homes program must maintain for each Property purchased, sold, or
33 leased when a discount of 10 percent or greater is obtained at the time of purchase.

34
35 **Individual Retirement Account (IRA)/401(k) Income**

36 An Individual Retirement Account (IRA)/401(k) Income refers to income received from an IRA.

37
38 **Individual Water Supply System**

39 An Individual Water Supply System refers to a potable water source providing water to an
40 individual Property.

41
42 **Ineligible Non-Borrowing Spouse (NBS)**

43 An Ineligible Non-Borrowing Spouse (NBS) refers to an NBS who does not meet all Qualifying
44 Attributes for a Deferral Period.

1 **Informal Forbearance Plans**

2 Informal Forbearance Plans refer to oral agreements allowing for reduced or suspended
3 payments for a period of three months or less and may provide specific terms for repayment.
4

5 **Infrastructure**

6 Infrastructure refers to the Condominium Project's streets, storm water management, water and
7 sewage systems, and utilities, along with the Condominium Project's Common Elements and any
8 similar items, called for in the Condominium Project or Legal Phase.
9

10 **Initial Disbursement Limit**

11 Initial Disbursement Limit refers to the maximum amount of funds that can be advanced to the
12 Borrower of an adjustable rate HECM at closing and during the First 12-Month Disbursement
13 Period.
14

15 **Initial Index Figure**

16 The Initial Index Figure is the most recent figure available before the Closing Date of Mortgage.
17

18 **Initial Vacant Property Inspection**

19 An Initial Vacant Property Inspection is the first inspection performed by the Mortgagee to
20 ascertain the condition of a vacant or abandoned Property.
21

22 **Installment Due Date**

23 The Installment Due Date is the first Day of the month, as provided for in the security
24 instrument.
25

26 **Installment Loans**

27 Installment Loans (excluding Student Loans) refer to loans, not secured by real estate, that
28 require the periodic payment of principal and interest. A loan secured by an interest in a
29 timeshare must be considered an Installment Loan.
30

31 **Instrumentality of Government**

32 An Instrumentality of Government refers to an Entity that was established by a governmental
33 body or with governmental approval or under special law to serve a particular public purpose or
34 designated by law (statute or court opinion) and does not have 501(c)(3) status.
35

36 **Insured HUD Real Estate Owned (REO) Property Purchase**

37 An Insured HUD Real Estate Owned (REO) Property Purchase refers to the purchase of a HUD
38 REO Property by a Borrower with a new FHA-insured Mortgage.
39

40 **Interested Parties**

41 Interested Parties refer to sellers, real estate agents, builders, developers, Mortgagees, Third
42 Party Originators (TPO), or other parties with an interest in the transaction.
43

1 **Interested Party Contribution**

2 Interested Party Contribution refers to a payment by an Interested Party, or combination of
3 parties, toward the Borrower's origination fees, other closing costs including any items Paid
4 Outside Closing (POC), prepaid items, and discount points.

5
6 **Investing Mortgagee**

7 An Investing Mortgagee is an organization that invests funds under its own control.

8
9 **Investment Income**

10 Investment Income refers to interest and dividend income received from assets such as
11 certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking
12 accounts.

13
14 **Investment Property**

15 Investment Property refers to a Property that is not occupied by the Borrower as a Principal or
16 Secondary Residence.

17
18 **Investor Buyer**

19 An Investor Buyer is a buyer who will not occupy the HUD REO Property as their Principal
20 Residence.

21
22 **Judgment**

23 Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in
24 a community property state unless excluded by state law, created by a court, or other
25 adjudicating body.

26
27 **Judgment (applicable to HECMs only)**

28 Judgment refers to any debt or monetary liability of the Borrower created by a court, or other
29 adjudicating body.

30
31 **Jurisdictional Homeownership Center (HOC)**

32 Jurisdictional Homeownership Center (HOC) refers to the HOC whose jurisdiction includes the
33 state in which the Property is located.

34
35 **Land Subsidence**

36 Land Subsidence refers to the lowering of the land-surface elevation from changes that take
37 place underground, including damage caused by sinkholes.

38
39 **Land Use Restriction Addendum (LURA)**

40 The Land Use Restriction Addendum (LURA) is a legally binding contractual agreement
41 between HUD and the Governmental Entities or nonprofits imposing restrictions on the resale of
42 a HUD Home that the nonprofit organization or Governmental Entity purchased at a discount of
43 10 percent or greater.

1 **Large Supervised Mortgagee**

2 A Large Supervised Mortgagee is a Supervised Mortgagee that has consolidated assets greater
3 than or equal to the threshold for audited financial reporting established by the Federal Banking
4 Agency with oversight of the Mortgagee. Thresholds are codified at [12 CFR §§ 363.1\(a\),](#)
5 [562.4\(b\)\(2\), and 715.4\(c\)](#), and are subject to change.

6
7 **Last Action Taken**

8 Last Action Taken refers to one of the following steps in the application to endorsement process
9 that is used to refer to the step in the process that was the last completed: (1) case number
10 assigned; (2) appraisal information entered; (3) firm commitment issued by FHA; (4) insurance
11 application received and subsequent updates; and (5) Notice of Return (NOR) and
12 resubmissions. Last Action Taken does not include updates to Borrowers' names and/or property
13 addresses, an appraisal update, or a transmission of the Upfront Mortgage Insurance Premium
14 (UFMIP) to FHA.

15
16 **Late Charges**

17 Late Charges are charges assessed if a Mortgage Payment is received more than 15 Days after
18 the due date.

19
20 **Late Charges (applicable to HECMs only)**

21 Late Charges refer to charges assessed if the IMIP payment is received more than five Days after
22 the payment due date.

23
24 **Leased Fee**

25 Leased Fee refers to an ownership interest held by a landlord with the right of use and occupancy
26 conveyed by lease to others.

27
28 **Leasehold**

29 Leasehold refers to the right to hold or use Property for a fixed period of time at a given price,
30 without transfer of ownership, on the basis of a lease contract.

31
32 **Leasehold Estate**

33 Leasehold Estate refers to the right to use and occupy real estate for a stated term and under
34 certain conditions that have been conveyed by a lease.

35
36 **Leasehold Interest**

37 Leasehold Interest refers to real estate where the residential improvements are located on land
38 that is subject to long-term lease from the underlying fee owner, creating a divided estate in the
39 Property.

40
41 **Legal Phases**

42 Legal Phases refer to specific phases of a Condominium Project that allow additions to the
43 Condominium Project and are defined by state authority.

1 **Lender Electronic Assessment Portal (LEAP)**

2 The Lender Electronic Assessment Portal (LEAP) is an FHA system created to facilitate
3 automated lender approval application.
4

5 **Lender Insurance (LI) Authority**

6 Lender Insurance (LI) Authority permits a Mortgagee with Title II Unconditional DE authority
7 to endorse Single Family Mortgages for insurance without prior review by FHA.
8

9 **Lender Insurance (LI) Compare Ratio**

10 The Lender Insurance (LI) Compare Ratio is the percentage of Mortgages underwritten by the
11 Mortgagee that are in claim or Default status compared with the percentage of Mortgages in
12 claim or Default status for all Mortgagees operating in the same state(s) over the preceding two-
13 year period.
14

15 **Liability Insurance**

16 Liability Insurance refers to insurance that protects against legal claims.
17

18 **Lien Waiver**

19 A Lien Waiver is a document that releases a consumer (homeowner) from any further obligation
20 for payment of a debt once it has been paid in full. Lien Waivers typically are used by
21 homeowners who hire a contractor to provide work and materials to prevent any subcontractors
22 or suppliers of materials from filing a lien against the homeowner for nonpayment.
23

24 **Life Expectancy Set-Aside (LESA) (applicable to HECMs only)**

25 Life Expectancy Set-Aside (LESA) refers to a Set-Aside account that is established for the
26 payment of property taxes, Hazard Insurance, and, if applicable, Flood Insurance until expended
27 or while the HECM is not in Due and Payable status. LESA funds cannot be held in an escrow
28 account.
29

30 **Litigation**

31 Litigation refers to a current or pending lawsuit or proceedings in a court, arbitration, or
32 mediation involving the Condominium Project or Condominium Association, or those concluded
33 within 12 months of the application date. Litigation does not include foreclosure or actions to
34 collect past due assessments brought by the Condominium Association or Condominium Project
35 as plaintiff.
36

37 **Live/Work Condominium Project**

38 Live/Work Condominium Project refers to a Condominium Project that allows space within the
39 individual Unit to be used jointly for non-residential and residential purposes.
40

41 **Live/Work Unit**

42 A Live/Work Unit refers to a Unit in a Live/Work Condominium Project.
43

44 **Loan Administration**

45 Loan Administration refers to all aspects of the FHA Mortgage lifecycle, including origination,
46 underwriting, closing, endorsement, and servicing of FHA-insured Mortgages that are governed

1 by FHA policies and procedures. Loan Administration includes the approval of a Condominium
2 Project.

3 4 **Loan Modification**

5 A Loan Modification is a permanent change in one or more terms of a Borrower's Mortgage.

6 7 **Loan Sample Risk Assessment**

8 A Loan Sample Risk Assessment is a method of evaluating loans selected for QC on the basis of
9 the severity of the violations found during QC reviews.

10 11 **Loan-to-Value (LTV)**

12 The Loan-to-Value (LTV) is computed as the Base Loan Amount divided by the Adjusted Value.

13 14 **Local Distribution Lines**

15 Local Distribution Lines refer to electric lines that commonly supply power to residential
16 housing developments, similar facilities and individual Properties.

17 18 **Loss Mitigation Assumption**

19 Loss Mitigation Assumption refers to the assumption of personal liability for repayment of the
20 Mortgage in accordance with agreed loss mitigation terms by a non-borrower, who has acquired
21 a title interest in a Property securing an FHA-insured Mortgage and satisfies established criteria
22 for loss mitigation approval.

23 24 **Loss Mitigation Home Retention Option**

25 The Loss Mitigation Home Retention Options are Informal and Formal Forbearances, SFB-
26 Unemployment, and FHA-HAMP.

27 28 **Loss Mitigation Option**

29 HUD's Loss Mitigation Options are intended to minimize economic impact to the Mutual
30 Mortgage Insurance Fund (MMIF) and to avoid foreclosure, when possible. The Loss Mitigation
31 Options are:

- 32 • Informal or Formal Forbearance
- 33 • Special Forbearance (SFB)-Unemployment
- 34 • FHA - Home Affordable Modification Program (FHA-HAMP) Loan Modification,
35 Partial Claim, and Combination Loan Modification/Partial Claim
- 36 • Pre-Foreclosure Sale (PFS)
- 37 • Deed-in-Lieu (DIL) of Foreclosure

38 39 **Low- to Moderate-Income**

40 Low- to Moderate-Income individuals or families refer to individuals or families whose
41 household income does not exceed 115 percent of the median income for the area when adjusted
42 for family size.

43 44 **Maintenance Income**

45 See **Alimony, Child Support, and Maintenance Income**.

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Management Agreement

A Management Agreement refers to an agreement between a third-party company and the Condominium Association to manage the Condominium Project.

Mandatory Obligations

Mandatory Obligations refer to fees and/or charges incurred in connection with the origination of the HECM that are requirements for loan approval and which will be paid at closing or during the First 12-Month Disbursement Period.

Manufactured Housing

Manufactured Housing refers to Structures that are transportable in one or more sections. They are designed to be used as a dwelling when connected to the required utilities, which include the plumbing, heating, air-conditioning and electrical systems contained therein. Manufactured Housing is designed and constructed to the federal Manufactured Home Construction and Safety Standards (MHCSS) as evidenced by an affixed HUD Certification Label. Manufactured Housing may also be referred to as mobile housing, sectionals, multi-sectionals, double-wide, triple-wide or single-wide.

Manufactured Housing (applicable to Condominiums only)

Manufactured Housing refers to Structures that are transportable in one or more sections and meet the additional definition standards prescribed in Property Acceptability Criteria for Manufactured Housing for Title II Insured Mortgages (Section II.D.5 of the [SF Handbook](#)). They may be part of an Approved Condominium Project, provided the Condominium Project meets applicable FHA requirements.

Manufactured Home

A Manufactured Home refers to a single Dwelling Unit of Manufactured Housing.

Manufactured Home Condominium Project (MHCP)

A Manufactured Home Condominium Project (MHCP) refers to a Condominium Project that consists of two or more Manufactured Homes.

Market Condition Adjustments

Market Condition Adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

Market Rate

Market Rate is a rate that is no more than 25 bps greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed rate conforming Mortgages (U.S. average), rounded to the nearest one-eighth of 1 percent (0.125 percent), as of the date a TPP is offered to a Borrower or, when a TPP is not required, the date the Borrower is offered a permanent Loan Modification. The Mortgagee must first round the PMMS Rate to the nearest one-eighth of 1 percent (0.125 percent) before calculating the rate at 25 bps greater than the PMMS Rate.

1 **Market Value**

2 Market Value refers to the most probable price which a Property should bring in a competitive
3 and open market under all conditions requisite to a fair sale, the buyer and seller, each acting
4 prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in
5 this definition is the consummation of a sale as of a specified date and the passing of title from
6 seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both
7 parties are well informed or well advised, and each acting in what he or she considers his or her
8 own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment
9 is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable
10 thereto; and (5) the price represents the normal consideration for the Property sold unaffected by
11 special or creative financing or Sales Concessions granted by anyone associated with the sale.

12
13 Adjustments to the comparables must be made for special or creative financing or Sales
14 Concessions. No adjustments are necessary for those costs which are normally paid by sellers as
15 a result of tradition or law in a market area; these costs are readily identifiable since the seller
16 pays these costs in virtually all sales transactions. Special or creative financing adjustments can
17 be made to the comparable property by comparisons to financing terms offered by a third-party
18 institutional lender that is not already involved in the Property or transaction. Any adjustment
19 should not be calculated on a mechanical dollar for dollar cost of the financing or concession but
20 the dollar amount of any adjustment should approximate the market's reaction to the financing or
21 concessions based on the appraiser's judgment.

22
23 **Material Finding**

24 In the context of Mortgage origination and underwriting, a Finding is Material if disclosure of
25 the Finding would have altered the Mortgagee's decision to approve the Mortgage or to endorse
26 or seek endorsement from FHA for insurance of the Mortgage. In the context of mortgage
27 servicing, a Finding is Material if it has an adverse impact on the Property and/or FHA.

28
29 **Maximum Claim Amount (MCA)**

30 The Maximum Claim Amount (MCA) is the lesser of the:

- 31 • appraised value as determined by the collateral risk assessment;
- 32 • national mortgage limit; or
- 33 • sales contract price (applicable only to HECM for Purchase).

34
35 **Maximum Property Preservation Allowance**

36 The Maximum Property Preservation Allowance is a pre-approved reimbursement for the
37 aggregate of all property preservation expenses that do not exceed the line item allowances listed
38 in HUD's Property Preservation Allowances and Schedules.

39
40 **Military Income**

41 Military Income refers to income received by military personnel during their period of active,
42 Reserve, or National Guard service, including:

- 43 • base pay
- 44 • Basic Allowance for Housing
- 45 • clothing allowances

- 1 • flight or hazard pay
- 2 • Basic Allowance for Subsistence
- 3 • proficiency pay
- 4

5 **Minimum Decision Credit Score (MDCS)**

6 Minimum Decision Credit Score (MDCS) refers to the credit score reported on the Borrower’s
7 credit report when all reported scores are the same. Where three scores are reported, the median
8 score is the MDCS. Where two differing scores are reported, the MDCS is the lowest score.
9 Where only one score is reported, that score is the MDCS.

10
11 **Minimum Property Requirements (MPR)**

12 Minimum Property Requirements (MPR) refer to general requirements that all homes insured by
13 FHA be safe, sound, and secure.

14
15 **Minimum Property Standards (MPS)**

16 Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety,
17 soundness and security of New Construction.

18
19 **Minimum Required Investment (MRI)**

20 Minimum Required Investment (MRI) refers to the Borrower’s contribution in cash or its
21 equivalent required by Section 203(b)(9)(A) of the National Housing Act (NHA), which
22 represents at least 3.5 percent of the Adjusted Value of the Property.

23
24 **Mitigated Finding**

25 In the context of mortgage origination and underwriting, a Finding has been Mitigated if the
26 Mortgagee has adequately addressed the deficiencies underlying the Finding, and such
27 deficiencies have been remedied so that the Mortgagee’s decision to approve the Mortgage or to
28 endorse or seek endorsement from FHA for insurance of the Mortgage is acceptable to FHA.

29
30 In the context of mortgage servicing, a Finding has been Mitigated if the Mortgagee has
31 adequately addressed the deficiencies underlying the Finding, and such deficiencies have been
32 remedied through mortgage servicing actions taken by the Mortgagee so there is no longer an
33 adverse impact on the Property and/or FHA.

34
35 **Mixed Use**

36 Mixed Use refers to a Property suitable for a combination of uses including any of the following:
37 commercial, residential, retail, office or parking space.

38
39 **Modular Housing**

40 Modular Housing refers to Structures constructed according to state and local codes off-site in a
41 factory, transported to a building lot, and assembled by a contractor into a finished house.

1 **Mortgage**

2 Mortgage refers to any form of security instrument that is commonly used in a jurisdiction in
3 connection with a loan secured by a one- to four-family residential Property and the land on
4 which it is situated, such as a deed of trust or security deed or land contract.

5
6 **Mortgage Charge**

7 Mortgage Charge refers to the interest rate, discount points, origination fee, and any other
8 amount charged to the Borrower for an insured Mortgage.

9
10 **Mortgage Charge Rate**

11 Mortgage Charge Rate refers to the total amount of Mortgage Charges for a Mortgage expressed
12 as a percentage of the initial principal of the Mortgage.

13
14 **Mortgage Holder**

15 The Mortgage Holder is the Entity who holds title to the FHA-insured Mortgage and has the
16 right to enforce the mortgage agreement.

17
18 **Mortgage Insurance Premium (MIP) Cancellation**

19 A Mortgage Insurance Premium (MIP) Cancellation is the ending of MIP payments on an FHA-
20 insured Mortgage closed on or after January 1, 2001, and assigned a case number before June 3,
21 2013.

22
23 **Mortgage on Indian Land**

24 A Section 248 Mortgage on Indian Land refers to a purchase or refinance Mortgage covering
25 one- to four-family dwellings on Indian Lands.

26
27 **Mortgage Payment**

28 See **Housing Obligation**.

29
30 **Mortgage Payment Reserve**

31 Mortgage Payment Reserve refers to an amount set aside to make Mortgage Payments when the
32 Property cannot be occupied during rehabilitation.

33
34 **Mortgage Servicer (Servicer)**

35 The Mortgage Servicer (Servicer) is the Entity responsible for performing servicing actions on
36 FHA-insured Mortgages on its behalf or on behalf of or at the direction of another FHA-
37 approved Mortgagee.

38
39 **Mortgagee**

40 See **Title I Mortgagee** or **Title II Mortgagee**.

41
42 **Mortgagee Neglect**

43 Mortgagee Neglect is the Mortgagee's failure to take action to preserve and protect the Property
44 from the time it is determined (or should have been determined) to be vacant or abandoned, until
45 the time it is conveyed to HUD.

46

1 **Mortgagee Optional Election (MOE) Assignment**

2 Mortgagee Optional Election (MOE) Assignment refers to an assignment option available to
3 Mortgagees for cases where an FHA case number was assigned prior to August 4, 2014 and is
4 associated with an Eligible Surviving NBS.

6 **Mortgagee Optional Election (MOE) Assignment Deferral Period**

7 Mortgagee Optional Election (MOE) Assignment Deferral Period refers to the period of time
8 following the death of the last surviving Borrower for an eligible HECM with an FHA case
9 number assigned prior to August 4, 2014, and associated with an Eligible Surviving NBS, during
10 which time the Due and Payable status of a HECM is deferred based on the continued
11 satisfaction of the requirements for an Eligible Surviving NBS under this section and all other
12 FHA requirements.

14 **Mortgages Delinquent within the First Two Years**

15 Mortgages Delinquent within the First Two Years are Mortgages that were reported to HUD as
16 90 days or more Delinquent in the 24-month period; this delinquent status includes Mortgages
17 that went into default but have subsequently cured.

19 **Name and Address Identification (NAID)**

20 A Name and Address Identification (NAID) number is used by HUD to track the payee of HUD
21 funds.

23 **Net Principal Limit (applicable to HECMs only)**

24 Net Principal Limit refers to the amount of HECM funds available to, or to be paid on behalf of,
25 the Borrower after deducting all fees and charges that are required as a condition of the Mortgage
26 and prior disbursements from the Principal Limit.

28 **Net Sale Proceeds**

29 Net Sale Proceeds are the proceeds of a PFS sale, calculated by subtracting reasonable and
30 customary closing and settlement costs from the property sales price.

32 **Net Self-Sufficiency Rental Income**

33 Net Self-Sufficiency Rental Income refers to the Rental Income produced by the subject Property
34 over and above the Principal, Interest, Taxes, and Insurance (PITI).

36 **New Construction**

37 New Construction refers to Proposed Construction, Properties (or Condominium Projects) Under
38 Construction, and Properties Existing Less than One Year as defined below:

- 39 • Proposed Construction refers to a Property where no concrete or permanent material has
40 been placed. Digging of footing is not considered permanent.
- 41 • Under Construction refers to the period from the first placement of permanent material to
42 100 percent completion with no Certificate of Occupancy (CO) or equivalent.
- 43 • Existing Less than One Year refers to a Property that is 100 percent complete and has
44 been completed less than one year from the date of issuance of the CO or equivalent. The
45 Property must have never been occupied.

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New Construction for Manufactured Housing

New Construction for Manufactured Housing refers to a Manufactured Home that has been permanently erected on a site for less than one year prior to the case number assignment date.

Non-Borrowing Owner

Non-Borrowing Owner refers to someone who is not the spouse of a Borrower and is on the title to the Property that will serve as collateral for the HECM.

Non-Borrowing Spouse (NBS)

Non-Borrowing Spouse (NBS) refers to the spouse of a HECM Borrower who is also not a Borrower.

Non-Borrowing Spouse Debt

Non-Borrowing Spouse Debt refers to debts owed by a spouse that are not owed by, or in the name of the Borrower.

Non-Gut Rehabilitation (Non-Gut Rehab)

Non-Gut Rehabilitation (Non-Gut Rehab) refers to rehabilitation work that is not structural and is limited to minor property repairs and improvements.

Non-Monetary Default

Non-Monetary Default is when the Borrower fails to perform obligations, other than making monthly payments, contained in the mortgage security instrument for a period of 30 Days.

Non-Occupant Borrower

A Non-Occupant Borrower refers to a Borrower on a Mortgage securing a Property that is not occupied by any Borrower.

Non-Occupying Borrower Transaction

Non-Occupying Borrower Transaction refers to a transaction involving two or more Borrowers in which one or more of the Borrower(s) will not occupy the Property as their Principal Residence.

Nonprofit Instrumentality of Government (NPIOG)

A Nonprofit Instrumentality of Government (NPIOG) refers to a 501(c)(3) organization that was established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated as an instrumentality by law (statute or court opinion). FHA requires the unit of government that established the nonprofit to exercise Organizational Control, Operational Control or Financial Control of the nonprofit in its entirety or, at minimum, the specific homebuyer assistance program that is using FHA's credit enhancement.

Organizational Control refers to the majority of the governing board and/or Principal Officers that are named or approved by governmental body/officials.

1 **Operational Control** refers to the requirement that the government body approves all major
2 decisions and/or expenditures.

3
4 **Financial Control** refers to the requirement that the government body provides funds
5 through direct appropriations, grants, or loans, with related controls applicable to all
6 activities of the Entity.

7
8 **Nonsupervised Mortgagee**

9 A Nonsupervised Mortgagee is a lending institution that has as its principal activity the lending
10 or investing of funds in real estate Mortgages, consumer installment notes, or similar advances of
11 credit, the purchase of consumer installment contracts, or from a directly related field. A directly
12 related field is something directly related to the lending or investing of funds in real estate
13 Mortgages, not simply actions relating to real estate in general.

14
15 **Non-Surchargeable Damage**

16 Non-Surchargeable Damage is damage to a Property that is not Surchargeable Damage.

17
18 **Non-Taxable Income**

19 Non-Taxable Income refers to types of income not subject to federal taxes, which includes, but is
20 not limited to:

- 21 • some portion of Social Security income;
- 22 • some federal government employee Retirement Income;
- 23 • Railroad Retirement benefits;
- 24 • some state government Retirement Income;
- 25 • certain types of disability and Public Assistance payments;
- 26 • Child Support;
- 27 • military allowances; and
- 28 • other income that is documented as being exempt from federal income taxes.

29
30 **Non-Traditional Mortgage Credit Report (NTMCR)**

31 A Non-Traditional Mortgage Credit Report (NTMCR) refers to a type of credit report designed
32 to access the credit history of a Borrower who does not have the types of trade references that
33 appear on a traditional credit report.

34
35 **Non-Traditional Mortgage Credit Report (NTMCR) (applicable to HECMs only)**

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

- 39 • a substitute for a Tri-Merged Credit Report (TRMCR) or a Residential Mortgage Credit
40 Report (RMCR); or
- 41 • a supplement to a traditional credit report that has an insufficient number of trade items
42 reported to generate a credit score.

1 **Note**

2 Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a
3 Mortgage.

4
5 **Notes Receivable Income**

6 Notes Receivable Income refers to income received by the Borrower as payee or holder in due
7 course of a promissory Note or similar credit instrument.

8
9 **Notice of Deficiency (NOD)**

10 A Notice of Deficiency (NOD) refers to a formal notification from FHA to an appraiser when a
11 review identifies an error or lack of compliance. An NOD is not a sanction and is not considered
12 severe enough to require remedial education or removal.

13
14 **Notice of Intent to Prepay**

15 Notice of Intent to Prepay refers to the advance notice that Borrowers on Mortgages insured
16 before August 2, 1985 must provide in order to prepay their FHA-insured Mortgages in full
17 without penalty.

18
19 **Notice of Material Event**

20 A Notice of Material Event is the method of submitting a required notice to FHA of a change to
21 the information provided by the Mortgagee at application as evidence of approval eligibility, or a
22 change that affects the Mortgagee's standing as an FHA-approved Mortgagee.

23
24 **Obligor**

25 Obligor refers to a person or entity who is legally or contractually obliged to make all principal
26 and interest payments on a debt.

27
28 **Occupancy Follow-Up**

29 An Occupancy Follow-Up is an attempt to communicate with the Borrower via letter, telephone,
30 or other method of communication, other than on-site inspection, to determine occupancy when
31 the Mortgage remains in Default after the initial inspection and the Mortgagee has not
32 determined the Borrower's occupancy status.

33
34 **Occupancy Inspection**

35 An Occupancy Inspection is a visual inspection of a mortgaged Property by the Mortgagee to
36 determine if the mortgaged Property has become vacant or abandoned and to confirm the identity
37 of any occupants.

38
39 **Occupied Conveyance**

40 An Occupied Conveyance is the conveyance to HUD of a Property that is not vacant.

41
42 **Onset of an Economic Event**

43 Onset of an Economic Event refers to the month of loss of employment/income.

44

1 **Onsite Sewage Disposal System**

2 An Onsite Sewage Disposal System refers to wastewater systems designed to treat and dispose of
3 effluent on the same Property that produces the wastewater.

4
5 **Other Non-Borrowing Household Member (applicable to HECMs only)**

6 Other Non-Borrowing Household Member refers to a person who occupies the Property to be
7 secured with the HECM who is not the spouse of the Borrower and who is also not a Borrower.

8
9 **Overhead Electric Power Transmission Lines**

10 Overhead Electric Power Transmission Lines refer to electric lines that supply power from
11 power generation stations to Local Distribution Lines.

12
13 **Overtime, Bonus or Tip Income**

14 Overtime, Bonus or Tip Income refers to income that the Borrower receives in addition to the
15 Borrower's normal salary.

16
17 **Owner Occupancy Percentage**

18 Owner Occupancy Percentage refers to the percentage of Units considered owner-occupied as
19 shown in the calculation.

20
21 **Owner-Occupant Borrower**

22 An Owner-Occupant Borrower refers to a Borrower residing in the Property secured by the
23 FHA-insured Mortgage as a Principal Residence.

24
25 **Owner-Occupant Buyer**

26 An Owner-Occupant Buyer is a buyer who intends to use the Property as their Principal
27 Residence.

28
29 **Partial Claim**

30 A Partial Claim is FHA's reimbursement of a Mortgagee advancement of funds on behalf of the
31 Borrower in an amount necessary to assist in reinstating the Delinquent Mortgage under the
32 FHA-HAMP Option.

33
34 **Partial Payment**

35 A Partial Payment is a payment of any amount less than the full amount due under the Mortgage
36 at the time the payment is tendered, including Late Charges and amounts advanced by the
37 Mortgagee on behalf of the Borrower.

38
39 **Partial Prepayment**

40 A Partial Prepayment is a payment of part of the principal amount before the date on which the
41 principal is due.

42
43 **Partially Below-Grade Habitable Space**

44 Partially Below-Grade Habitable Space refers to living area constructed partially below grade,
45 but has the full utility of GLA.

1 **Partially Funded Life Expectancy Set-Aside (LESA) (applicable to HECMS only)**

2 Partially Funded Life Expectancy Set-Aside (LESA) refers to a portion of the Borrower's
3 Principal Limit that is designated for partial payment of property taxes, Hazard Insurance and, if
4 applicable, Flood Insurance for the estimated remainder of the Borrower's life expectancy. With
5 a Partially Funded LESA, the Mortgagee makes payments to the Borrower who is responsible for
6 the remaining amounts owed and delivering the full payment to the billing agency.

7
8 **Participating Agency**

9 Participating Agency refers to all housing counseling and intermediary organizations
10 participating in HUD's Housing Counseling program, including HUD-approved agencies, and
11 affiliates and branches of HUD-approved intermediaries, HUD-approved multi-state
12 organizations, and state housing finance agencies.

13
14 **Part-Time Employment**

15 Part-Time Employment refers to employment that is not the Borrower's primary employment
16 and is generally performed for less than 40 hours per week.

17
18 **Payoff**

19 See **Prepayment in Full**.

20
21 **Payoff Disclosure**

22 A Payoff Disclosure is a disclosure accompanying the payoff statement and, for Mortgages
23 closed before January 21, 2015, describing the procedures for prepayment of a Mortgage.

24
25 **Pension**

26 Pension refers to income received from the Borrower's former employer(s).

27
28 **Periodic Review**

29 A Periodic Review refers to the monitoring of the work performed by the DELRAP Mortgagee
30 and its DELRAP staff reviewer to ensure compliance with FHA requirements.

31
32 **Personal Property**

33 Personal Property refers to tangible property, other than Real Property, such as cars, recreational
34 vehicles, stamps, coins or other collectibles.

35
36 **Phasing**

37 Phasing refers to Condominium Projects that are legally declared in separate stages by amending
38 and recording the governing documents.

39
40 **Phasing Review**

41 Phasing Review refers to the review of an additional Legal Phase of a previously Approved
42 Condominium Project.

43
44 **Planned Unit Development (PUD)**

45 A Planned Unit Development (PUD) refers to a residential development that contains, within the
46 overall boundary of the subdivision, common areas and facilities owned by a Homeowners'

1 Association (HOA), to which all homeowners must belong and to which they must pay lien-
2 supported assessments. A unit in a PUD consists of the fee title to the real estate represented by
3 the land and the improvements thereon plus the benefits arising from ownership of an interest in
4 the HOA.

5
6 **Post-Action Review**

7 A Post-Action Review refers to evaluations of submitted Unconditional DELRAP Authority
8 packages.

9
10 **Pre-Conveyance Inspection**

11 A Pre-Conveyance Inspection is an inspection performed by HUD, at the Mortgagee's request,
12 before conveyance to determine if a Property meets HUD's conveyance standards.

13
14 **Pre-Foreclosure Sales (PFS)**

15 Pre-Foreclosure Sales (PFS), also known as Short Sales, refer to the sales of real estate that
16 generate proceeds that are less than the amount owed on the Property and the lien holders agree
17 to release their liens and forgive the deficiency balance on the real estate.

18
19 **Pre-Foreclosure Sale (PFS) Approval to Participate (ATP)**

20 A Pre-Foreclosure Sale (PFS) Approval to Participate (ATP) is an agreement signed by the
21 Borrower to confirm their willingness to comply with the PFS Program requirements.

22
23 **Premium Pricing**

24 Premium Pricing refers to the aggregate credits from a Mortgagee or TPO at the interest rate
25 chosen.

26
27 **Premium Pricing (applicable to HECMs only)**

28 Premium Pricing refers to the aggregate credits from a Mortgagee or TPO at the interest rate
29 chosen.

30
31 **Prepayment in Full**

32 A Prepayment in Full, or Payoff, refers to the payment in whole of the principal amount of the
33 mortgage Note/HECM in advance of expiration of the term of the mortgage Note/HECM.

34
35 **Primary Obligor**

36 Primary Obligor refers to a person or entity who is legally or contractually obliged to make all
37 principal and interest payments on a debt.

38
39 **Principal Limit**

40 Principal Limit refers to the maximum amount of proceeds that a Borrower may receive from the
41 HECM before any Disbursements are made, taking into account the age of the youngest
42 Borrower or Eligible NBS, the Expected Average Mortgage Interest Rate, and the Maximum
43 Claim Amount.

1 **Principal Limit Factor**

2 Principal Limit Factor refers to a multiplier supplied by FHA used to calculate the initial
3 Principal Limit and is available on the HUD website.

4
5 **Principal Officer**

6 See **Corporate Officer**.

7
8 **Principal Owner**

9 A Principal Owner is any individual or Entity meeting the following thresholds or roles for the
10 applicable business form:

Business Form	Principal Owners
Publicly Traded Corporation	10% or more ownership
Private or Close Corporation	25% or more ownership
Limited Liability Company	All Members
Partnerships	All Partners

11
12 **Principal Residence**

13 A Principal Residence refers to a dwelling where the Borrower maintains or will maintain their
14 permanent place of abode, and which the Borrower typically occupies or will occupy for the
15 majority of the calendar year. A person may have only one Principal Residence at any one time.

16
17 **Principal Residence (applicable to HECMs only)**

18 Principal Residence refers to the dwelling where the Borrower and, if applicable, an NBS
19 maintain their permanent place of abode, and typically spend the majority of the calendar year. A
20 person may have only one Principal Residence at any one time and the Property is considered to
21 be the Principal Residence:

- 22 • of any Borrower who is temporarily in a health care institution provided the Borrower's
23 confinement to a health care institution does not exceed 12 consecutive months;
- 24 • of any NBS who is temporarily in a health care institution, as long as the Property is the
25 Principal Residence of their Borrower spouse, who physically resides in the Property;
- 26 • of any NBS who occupies the property as their Principal Residence, when the Borrower
27 resides in a health care institution for a length of time; and
- 28 • during a MOE Assignment Deferral Period of the NBS, who is temporarily in a health
29 care institution, provided the Eligible Surviving NBS physically occupied the Property
30 immediately prior to entering the health care institution and such confinement does not
31 exceed 12 consecutive months.

32
33 **Private Savings Club**

34 A Private Savings Club refers to a non-traditional method of saving by making deposits into a
35 member-managed resource pool.

1 **Projected Life Expectancy Property Charges**

2 Projected Life Expectancy Property Charges refer to the amount of HECM proceeds necessary to
3 pay property taxes, Hazard Insurance and Flood Insurance, if applicable, based on the life
4 expectancy of the youngest Borrower.

5
6 **Property**

7 Property refers to the real estate entity that will serve as adequate security for a specific FHA-
8 insured Mortgage.

9
10 **Property Assessed Clean Energy (PACE)**

11 Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and
12 other PACE-allowed improvements to residential properties using financing provided by private
13 enterprises in conjunction with state and local governments. Generally, the repayment of the
14 PACE obligation is collected in the same manner as a special assessment taxes is collected by the
15 local government rather than paid directly by the Borrower to the party providing the PACE
16 financing.

17
18 Generally, the PACE obligation is also secured in the same manner as a special assessment
19 against the property. In the event of a sale, including a foreclosure sale, of the property with
20 outstanding PACE financing, the obligation will continue with the property causing the new
21 homeowner to be responsible for the payments on the outstanding PACE amount. In cases of
22 foreclosure, priority collection of delinquent payments for the PACE assessment may be waived
23 or relinquished.

24
25 Properties that will remain encumbered with a PACE obligation after closing are not eligible for
26 FHA mortgage insurance.

27
28 **Property Charge Set-Aside**

29 A Property Charge Set-Aside is a portion of a Borrower's Principal Limit that is designated for
30 payment of Property Charges. A Property Charge Set-Aside can result from a Borrower being
31 required to establish a Life Expectancy Set-Aside (LESA) or when a Borrower elects to have the
32 Mortgagee pay Property Charges on their behalf.

33
34 **Property Charges (applicable to HECMs only)**

35 Property Charges refer to obligations of the Borrower that include:

- 36 • property taxes;
 - 37 • Hazard Insurance premiums;
 - 38 • applicable Flood Insurance premiums;
 - 39 • Ground Rents;
 - 40 • Condominium Fees;
 - 41 • Planned Unit Development (PUD) fees;
 - 42 • Homeowners' Association (HOA) Fees; and
 - 43 • other special assessments that may be levied under municipalities or state law.
- 44

1 **Property Flipping**

2 Property Flipping refers to the purchase and subsequent resale of a Property in a short period of
3 time.

4
5 **Property Preservation and Protection (P&P)**

6 Property Preservation and Protection (P&P) actions are maintenance, security, and repair work
7 required by HUD in order to ensure that the Property meets HUD's conveyance condition
8 standards.

9
10 **Property Value**

11 Property Value refers to the value as determined by the FHA Roster Appraiser.

12
13 **Proposed Construction**

14 Proposed Construction refers to a Property where no concrete or permanent material has been
15 placed. Digging of footing is not considered permanent.

16
17 **Public Assistance**

18 Public Assistance refers to income received from government assistance programs.

19
20 **Purchasing Mortgage Holder**

21 The Purchasing Mortgage Holder or Purchasing Mortgagee is the Mortgagee that purchases the
22 Mortgage and thereby succeeds to all rights and obligations of the Selling Mortgage Holder
23 under the contract for mortgage insurance.

24
25 **Qualifying Attributes**

26 Qualifying Attributes refer to the criteria an NBS must meet to be eligible for the Deferral
27 Period. An Eligible NBS must:

- 28 • have been the spouse of a HECM Borrower at the time of loan closing and have remained
29 the spouse of such HECM Borrower for the duration of the HECM Borrower's lifetime;
- 30 • have been properly disclosed to the Mortgagee at origination and specifically named as
31 an NBS in the HECM documents; and
- 32 • have occupied, and continue to occupy, the Property securing the HECM as the Principal
33 Residence of the NBS.

34
35 **Quality Control (QC) Plan**

36 A Quality Control (QC) Plan is a written plan that sets forth a Mortgagee's procedures for
37 ensuring quality control. A QC Plan is the written element of a Mortgagee's QC Program.

38
39 **Quality Control (QC) Plan (applicable to nonprofits)**

40 A Quality Control (QC) Plan outlines the processes and procedures used by the nonprofit to
41 monitor its compliance with FHA nonprofit program guidelines.

42

1 **Quality Control (QC) Program**

2 A Quality Control (QC) Program is the process and written procedures through which the
3 Mortgagee seeks to ensure that FHA operations and Loan Administration are in compliance with
4 all applicable requirements.

5
6 **Rate and Term**

7 Rate and Term refers to a no cash-out refinance of any Mortgage in which all proceeds are used
8 to pay existing mortgage liens on the subject Property and costs associated with the transaction.

9
10 **Real Estate Commission from Sale of Subject Property**

11 Real Estate Commission from Sale of Subject Property refers to the Borrower's (i.e., buyer's)
12 portion of a real estate commission earned from the sale of the Property being purchased.

13
14 **Real Property**

15 Real Property refers to the interests, benefits, and rights inherent in the ownership of physical
16 real estate.

17
18 **Reasonable Diligence Time Frame**

19 The Reasonable Diligence Time Frame is the time period beginning at the earlier of the date the
20 first legal action should have been filed in accordance with HUD time frames or the date the
21 actual first legal action required by the jurisdiction to commence foreclosure was taken, and
22 ending with the later date of acquiring good marketable title to, and possession of, the Property.

23
24 **Recertification Review**

25 Recertification Review refers to the verification and analysis of updated Condominium Project
26 Approval documentation.

27
28 **Reconveyance**

29 A Reconveyance is a conveyance of a Property from HUD back to the Mortgagee due to the
30 Mortgagee's failure to comply with HUD's conveyance requirements.

31
32 **Recorded Documents**

33 Recorded Documents refer to the Condominium Project's legal, project and governing
34 documents that are required to operate legally as required by state and local law.

35
36 **Recovery from an Economic Event**

37 Recovery from an Economic Event refers to the re-establishment of Satisfactory Credit.

38
39 **Recreational Leases**

40 Recreational Leases refer to separate ownership of recreational facilities at a Condominium
41 Project with the owner leasing its use to the Unit owners.

42
43 **Re-Default**

44 A Re-Default is a mortgage Default occurring within six months after reinstatement or the
45 successful use of a permanent Home Retention Option.

1 **Related Party**

2 Related Party includes, but is not limited to:

- 3 • an individual serving as the Unit owners' officer, director, or employee; or
4 • a Unit owner's direct parent company, subsidiary, or any related Entity with which the
5 Unit owner shares a common officer or director.

6
7 **Rental Income**

8 Rental Income refers to income received or to be received from the subject Property or other real
9 estate holdings.

10
11 **Rental for Transient or Hotel Purposes**

12 Rental for Transient or Hotel Purposes shall have the meaning given in section 513(e) of the
13 National Housing Act (12 U.S.C. 1731b(e)).

14
15 **Repair Set-Aside**

16 Repair Set-Aside refers to the portion of the Principal Limit equal to 150 percent of the
17 Commissioner's estimated cost of repairs, plus a repair administration fee, that is set aside to
18 fund repairs required to bring the mortgaged Property into compliance with FHA's Minimum
19 Property Standards (MPS).

20
21 **Repayment Plan (applicable to HECMs only)**

22 Repayment Plan refers to a written agreement by the Borrower to make monthly payments to the
23 Mortgagee to reimburse the Mortgagee for corporate advances made on the Borrower's behalf
24 for taxes and/or insurance.

25
26 **Reserves**

27 Reserves refer to the sum of the Borrower's verified and documented liquid assets minus the
28 total funds the Borrower is required to pay at closing.

29
30 **Residential Mortgage Credit Report (RMCR)**

31 A Residential Mortgage Credit Report (RMCR) refers to a credit report that provides details on
32 items that have been flagged in a merged report as a result of combining reports from the three
33 credit repositories (Equifax, Trans Union, and Experian).

34
35 **Residential Real Estate-Related Transactions**

36 Residential Real Estate-Related Transactions are transactions related to the making or purchasing
37 of Mortgages or providing other financial assistance to a Borrower for purchasing, constructing,
38 improving, repairing, or maintaining a dwelling or securing residential real estate, and similar
39 transactions.

40
41 **Residential Space**

42 Residential Space refers to floor area allocated to:

- 43 • all Unit square footage;

- all building common area square footage exclusively for the use of residential Unit owners; and
- all parking garage square footage allocated to residential Unit owners.

Parking lot square footage is not considered Residential or Commercial/Non-Residential Space.

Residual Income (applicable to HECMs only)

Residual Income refers to the total monthly Effective Income from all sources described in Effective Income analysis for the Borrowers obligated on the Mortgage, minus the total monthly expenses from all sources described in monthly expense analysis for the Borrowers obligated on the Mortgage.

Resolution of Financial Distress Event

Resolution of Financial Distress Event refers to:

- bankruptcy discharge;
- termination of receivership;
- issuance of foreclosure judgment; or
- execution of DIL of Foreclosure.

Retirement Income

Retirement Income refers to income received from Pensions, 401(k) distributions, and Social Security.

Revitalization Area

A Revitalization Area is a designated geographic area in which HUD identifies Properties eligible for disposition through discount sales programs.

Revolving Charge Accounts

A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time.

Running Gear

Running Gear refers to a mechanical system designed to allow the Manufactured Housing unit to be towed over public roads.

Sale of Real Property

The Sale of Real Property refers to the sale of Property currently owned by the Borrower.

Sales Concessions

Sales Concessions refer to non-realty items, upgraded features in newly constructed houses, and special financing incentives.

Sales Contract Date

Sales Contract Date refers to the date the sales contract is executed by all parties.

1 **Sanction**

2 A Sanction is any penalty, punitive or restrictive measure taken for a failure to comply with a
3 court order, federal, state or local government law, rule or regulation.

4
5 **Seasonal Employment**

6 Seasonal Employment refers to employment that is not year round, regardless of the number of
7 hours per week the Borrower works on the job.

8
9 **Secondary Residence**

10 Secondary Residence refers to a dwelling that a Borrower occupies in addition to their Principal
11 Residence, but less than a majority of the calendar year. A Secondary Residence does not include
12 a Vacation Home.

13
14 **Self-Employment Income**

15 Self-Employment Income refers to income generated by a business in which the Borrower has a
16 25 percent or greater ownership interest.

17
18 There are four basic types of business structures. They include:

- 19
- 20 • sole proprietorships
 - 21 • corporations
 - 22 • limited liability or “S” corporations
 - 23 • partnerships

24 **Selling Mortgage Holder**

25 The Selling Mortgage Holder or Selling Mortgagee is the Mortgagee that sells the Mortgage and
26 thereby relinquishes all rights and obligations under the contract for mortgage insurance.

27
28 **Servicer**

29 See **Mortgage Servicer (Servicer)**

30
31 **Servicer (applicable to HECMs only)**

32 Mortgage Servicer (Servicer) refers to the Entity responsible for performing servicing actions on
33 FHA-insured HECMs on its own behalf or on behalf of or at the direction of another FHA-
34 approved Mortgagee.

35
36 **Servicing Fee Set-Aside**

37 Servicing Fee Set-Aside refers to an amount withheld from the HECM proceeds for the payment
38 of the monthly servicing fee.

39
40 **Set-Aside**

41 A Set-Aside refers to an amount of funds withheld by the Mortgagee from the Borrower’s
42 HECM funds for payment of certain fees and expenses. Set-Aside types include:

- 43
- 44 • Repair Set-Asides
 - 45 • Property Charge Set-Asides
 - Servicing Fee Set-Asides

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Settlement Statement

Settlement Statement refers to the closing disclosure required under Section 4 of the Real Estate Settlement Procedures Act.

Shared Well

A Shared Well refers to a well that services two to four homes where there is a binding Shared Well Agreement between the property owners that meets FHA requirements.

Short Sales

See **Pre-Foreclosure Sales**.

Simple Refinance

Simple Refinance refers to a no cash-out refinance of an existing FHA-insured Mortgage in which all proceeds are used to pay the existing FHA-insured mortgage lien on the subject Property and costs associated with the transaction.

Single Family

Single Family refers to one- to four-unit dwellings.

Single-Unit Approval

Single-Unit Approval refers to approval of a Unit in a Condominium Project that is not an Approved Condominium Project.

Site Condominium

A Site Condominium refers to:

- a Condominium Project that consists entirely of Single Family detached dwellings that have no shared garages, or any other attached buildings; or
- a Condominium Project that:
 - consists of Single Family detached or horizontally attached (townhouse) dwellings where the Unit consists of the dwelling and land;
 - does not contain any Manufactured Housing Units; and
 - is encumbered by a declaration of condominium covenants or a condominium form of ownership.

Slush Pit

A Slush Pit refers to a basin in which drilling “mud” is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

Small Supervised Mortgagee

A Small Supervised Mortgagee is a Supervised Mortgagee that has consolidated assets below the threshold for audited financial reporting established by the Federal Banking Agency with oversight of the Mortgagee. Thresholds are codified at [12 CFR §§ 363.1\(a\), 562.4\(b\)\(2\), and 715.4\(c\)](#) and are subject to change.

1 **Social Security Income**

2 Social Security Income or Supplemental Security Income (SSI) refers to income received from
3 the SSA other than disability income.
4

5 **Soil Contamination**

6 Soil Contamination refers to the presence of manmade chemicals or other alterations to the
7 natural soil environment.
8

9 **Special Energy System**

10 A Special Energy System refers to any addition, alteration, or improvement to an existing or new
11 Structure that is designed to utilize wind, geothermal or solar energy to produce energy to
12 support the habitability of the Structure.
13

14 **Special Forbearance (SFB) – Unemployment Agreement**

15 The Special Forbearance (SFB) – Unemployment Agreement is a written agreement between a
16 Mortgagee and the Borrowers, one or more of whom has become unemployed, allowing for
17 reduced and/or suspended Mortgage Payments.
18

19 **Special Forbearance (SFB) - Unemployment Option**

20 The Special Forbearance (SFB) – Unemployment Option is a Home Retention Option available
21 when one or more of the Borrowers have become unemployed and this loss of employment has
22 negatively affected the Borrower’s ability to continue to make their monthly Mortgage Payment.
23

24 **Standard Deed-in-Lieu (DIL)**

25 A Standard Deed-in-Lieu (DIL) is a DIL available for Owner-Occupant Borrowers who
26 experienced a verifiable hardship that has affected their ability to sustain their Mortgage but who
27 do not meet the requirements of a Streamlined DIL Option.
28

29 **Standard Pre-Foreclosure Sale (PFS) Option**

30 A Standard Pre-Foreclosure Sale (PFS) Option is a PFS Option available for Owner-Occupant
31 Borrowers who are experiencing a hardship affecting their ability to sustain their Mortgage, as
32 determined by the Deficit Income Test (DIT) and:

- 33 • are in Default; or
- 34 • are current or less than 30 Days past due but facing Imminent Default due to a hardship
35 as described in the Eligible Borrowers section.
36

37 **Streamline Refinance**

38 Streamline Refinance refers to the refinance of an existing FHA-insured Mortgage requiring
39 limited Borrower credit documentation and underwriting.
40

41 **Streamlined Deed-in-Lieu (DIL)**

42 A Streamlined Deed-in-Lieu (DIL) is a DIL transaction for Owner-Occupant Borrowers and
43 Non-Occupant Borrowers and does not require verification of hardship.
44

1 **Streamlined Deed-in-Lieu (DIL) for Servicemembers with Permanent Change of Station**
2 **(PCS) Orders**

3 A Streamlined Deed-in-Lieu (DIL) for Servicemembers with Permanent Change of Station
4 (PCS) Orders Option is a Streamlined DIL that may be offered to servicemembers who must
5 relocate to a new duty station at least 50 miles away from their existing residence, without the
6 Mortgagee verifying hardship.

7
8 **Streamlined Pre-Foreclosure Sale (PFS)**

9 A Streamlined Pre-Foreclosure Sale (PFS) is a PFS Option available for Owner-Occupant and
10 Non-Occupant Borrowers and does not require verification of hardship.

11
12 **Streamlined Pre-Foreclosure Sale (PFS) for Servicemembers with Permanent Change of**
13 **Station (PCS) Orders**

14 A Streamlined Pre-Foreclosure Sale (PFS) for Servicemembers with Permanent Change of
15 Station (PCS) Orders is a Streamlined PFS that may be offered to servicemembers who must
16 relocate to a new duty station at least 50 miles away from their existing residence, without the
17 Mortgagee verifying hardship.

18
19 **Structure**

20 Structure refers to a building that has a roof and walls, stands permanently in one place, and
21 contains single or multiple housing units that are used for human habitation.

22
23 **Student Loan**

24 Student Loan refers to liabilities incurred for educational purposes.

25
26 **Substantially Damaged**

27 A building is considered to be “Substantially Damaged,” as defined in the National Flood
28 Insurance Program (NFIP) regulations, when “damage of any origin is sustained by a structure
29 whereby the cost of restoring the structure to its before damaged condition would equal or
30 exceed 50 percent of the market value of the structure before the damage occurred.”

31
32 **Supervised Mortgagee**

33 A Supervised Mortgagee is a financial institution that is a member of the Federal Reserve
34 System (FRS) or whose accounts are insured by the Federal Deposit Insurance Corporation
35 (FDIC) or the National Credit Union Administration (NCUA) (collectively, “Federal Banking
36 Agencies”).

37
38 **Surchargeable Damage**

39 Surchargeable Damage is damage to a Property caused by fire, flood, earthquake, tornado,
40 hurricane, boiler explosion (for condominiums only) or Mortgagee Neglect.

41
42 **Surplus Income Percentage**

43 Surplus Income Percentage is a percentage calculated in the Mortgagee’s financial analysis to
44 determine which Loss Mitigation Options are appropriate based on the Borrower’s income.

1 **Surplus Land**

2 Surplus Land refers to land that is not currently needed to support the existing improvement but
3 cannot be separated from the Property and sold off. Surplus Land does not have an independent
4 highest and best use and may or may not contribute to the value of the improved parcels.

5
6 **Sweat Equity**

7 Sweat Equity refers to labor performed, or materials furnished, by or on behalf of the Borrower
8 before closing on the Property being purchased.

9
10 **Technology Open To Approved Lenders (TOTAL)**

11 Technology Open To Approved Lenders (TOTAL) refers to FHA's TOTAL Mortgage
12 Scorecard, which evaluates the overall creditworthiness of the Borrower, based on a number of
13 credit variables and, when combined with the functionalities of the Automated Underwriting
14 System (AUS), indicates a recommended level of underwriting and documentation to determine
15 a loan's eligibility for insurance by the FHA.

16
17 **Test Case**

18 Test Case refers to a Mortgage loan used by a Mortgagee when requesting an Unconditional
19 Direct Endorsement (DE) approval. These loans must be processed per the Direct Endorsement
20 eligibility requirements and approved by HUD for endorsement.

21
22 **Third Party Documents**

23 Third Party Documents refer to those documents that are originated and signed outside of the
24 control of the Mortgagee, such as the sales contract.

25
26 **Third-Party Originator (TPO)**

27 A Third-Party Originator (TPO) is an Entity that originates FHA Mortgages for an FHA-
28 approved Mortgagee acting as its sponsor. A TPO may be an FHA-approved Mortgagee or a
29 non-FHA-approved Entity.

30
31 **Tier Ranking System (TRS)**

32 The Tier Ranking System (TRS) II is a methodology for quantifying a Mortgagee's performance
33 in complying with HUD's Loss Mitigation and Delinquent servicing policies.

34
35 **Tiered Pricing**

36 Tiered Pricing refers to any variance in Mortgage Charge Rates of more than two percentage
37 points from the Mortgagee's reasonable and customary rate for insured Mortgages for dwellings
38 located within the area.

39
40 **Title I Mortgagee**

41 A Title I Mortgagee is a Mortgagee that (a) holds a valid Title I contract of insurance and is
42 approved by FHA or (b) held a Title I contract that has been terminated or suspended but
43 remains responsible for servicing or selling the Title I Mortgages that it holds and is authorized
44 to file insurance claims on these Mortgages.

1 **Title II Mortgagee**

2 A Title II Mortgagee is a Mortgagee that has been approved to participate in Title II and/or Title
3 XI programs under the National Housing Act (12 U.S.C. § 1707 et seq. and 12 U.S.C. § 1749aaa
4 et seq.).

5
6 **Total Floor Area**

7 Total Floor Area refers to all Residential Space and Commercial/Non-Residential Space.
8

9 **Total Loan Amount**

10 Total Loan Amount of the FHA Mortgage is the mortgage amount including the amount of any
11 financed UFMIP. The insured mortgage amount is the Total Loan Amount.
12

13 **Total Required Investment**

14 Total Required Investment refers to the amount the Borrower must contribute to the transaction
15 including the Borrower's downpayment and the Borrower-paid transaction costs. The Total
16 Required Investment includes the MRI.
17

18 **Trade Equity**

19 Trade Equity refers to when a Borrower trades their Real Property to the seller as part of the cash
20 investment.
21

22 **Trade-In of Manufactured Home**

23 Trade-In of Manufactured Home refers to the Borrower's sale or trade-in of another
24 Manufactured House that is not considered real estate to a Manufactured Housing dealer or an
25 independent third party.
26

27 **Transfer Date**

28 The Transfer Date is the date on which the Borrower's Mortgage Payment is first due to the
29 Transferee Servicing Mortgagee.
30

31 **Transfer Date (applicable to HECMs only)**

32 The Transfer Date refers to the effective date the servicing of any HECM is transferred from one
33 servicing Mortgagee to another.
34

35 **Transfer of Control (applicable to Condominiums only)**

36 Transfer of Control refers to the shift of existing control over the Condominium Association
37 from the developer/builder to the Unit owners.
38

39 **Transferee Servicing Mortgagee**

40 The Transferee Servicing Mortgagee is the Mortgage Servicer to which the servicing
41 responsibilities have been transferred.
42

43 **Transferor Servicing Mortgagee**

44 The Transferor Servicing Mortgagee is the Mortgage Servicer that transfers servicing
45 responsibilities.
46

1 **Trial Payment Plan**

2 A Trial Payment Plan (TPP) is a payment plan for a period of three months, during which the
3 Borrower must make the agreed-upon consecutive monthly payments prior to final execution of
4 the FHA-HAMP documents.

5
6 **Tri-Merged Credit Report (TRMCR)**

7 A Tri-Merged Credit Report (TRMCR) refers to a credit report that contains the data from all
8 three credit repositories into one report.

9
10 **Trust Clearing Account**

11 A Trust Clearing Account refers to a fiduciary account (usually a temporary one) containing
12 Borrower funds that will be transferred by the Mortgagee to another account before the end of an
13 accounting period.

14
15 **Trust Income**

16 Trust Income refers to income that is regularly distributed to a Borrower from a trust.

17
18 **Two- to Four-Unit Condominium Project**

19 A Two- to Four-Unit Condominium Project refers to a Condominium Project that comprises of at
20 least two, but no more than four, one-family dwelling Units that are each separately owned with
21 separate legal descriptions.

22
23 **Unaudited Regulatory Report**

24 An Unaudited Regulatory Report refers to a report of condition and income, also known as the
25 “call report,” which is submitted on the Federal Financial Institutions Examination Council
26 forms 031 and 041, or a consolidated or fourth quarter NCUA call report, submitted on NCUA
27 Form 5300 or 5310.

28
29 **Unconditional Direct Endorsement Lender Review and Approval Process (DELRAP)**
30 **Authority**

31 Unconditional Direct Endorsement Lender Review and Approval Process (DELRAP) Authority
32 refers to the authority of a Mortgagee to approve Condominium Projects in accordance with
33 HUD requirements and submit the Condominium Projects for listing on FHA’s Approved
34 Condominium Project list without any prior Condominium Project review by FHA.

35
36 **Under Construction**

37 Under Construction refers to the period from the first placement of permanent material to 100
38 percent completion with no Certificate of Occupancy (CO) or equivalent.

39
40 **Underserved Census Tracts**

41 Underserved Census Tracts are those areas identified by HUD as meeting the definition found at
42 24 CFR § 81.2. Underserved Census Tract areas are: 1) tracts in metropolitan areas a) having a
43 median income of no more than 90 percent of the area as a whole, or b) having a median income
44 of no more than 120 percent and minorities comprise at least 30 percent of the tract’s population;
45 2) all tracts in any nonmetropolitan area which a) have a median income of no more than 95
46 percent of the nonmetropolitan part of the state or nation, whichever is greater, or b) have a

1 median income of no more than 120 percent and minorities comprise at least 30 percent of the
2 area's population.

3
4 **Uniform Residential Appraisal Report (URAR)**

5 The *Uniform Residential Appraisal Report (URAR)* is the standard appraisal reporting form
6 available through all lenders. Fannie Mae and Freddie Mac *URAR* forms are acceptable.

7
8 **Unimproved Property Appraisal**

9 Unimproved Property Appraisal refers to the valuation of an interest in land without human
10 made Structures.

11
12 **Units in Arrears**

13 Units in Arrears refer to each Unit with Condominium Association dues or any special
14 assessments that are more than 60 Days past due.

15
16 **Unresolved Finding**

17 An Unresolved Finding is a material, adverse written finding, to include fair lending violations of
18 the Fair Housing Act or Equal Credit Opportunity Act, contained in a lawsuit or report produced
19 in connection with an investigation, audit, or review conducted by HUD, another federal, state,
20 or local governmental agency, or by any other regulatory or oversight Entity with jurisdiction
21 over the Mortgagee or its officers, partners, directors, principals, managers, supervisors, loan
22 processors, loan underwriters, or loan originators, that has not yet been resolved through final
23 agency or judicial action..

24
25 **Vacation Home**

26 Vacation Home refers to a dwelling used primarily for recreational purposes and enjoyment and
27 that is not a Principal or Secondary Residence.

28
29 **Viable Repair Plan**

30 A Viable Repair Plan is a plan for repairs of a mortgaged Property within the amounts available
31 through insurance proceeds and borrower funds.

32
33 **Walls-In Insurance**

34 Walls-In Insurance refers to insurance that covers the interior of the Unit and Personal Property
35 inside the Unit.

36
37 **Work Item**

38 Work Item refers to a specific repair or improvement that will be performed.

39
40 **Work Write-Up**

41 The Work Write-Up refers to the report prepared by a 203(k) Consultant that identifies each
42 Work Item to be performed and the specifications for completion of the repair.

FHA Single Family Housing Policy Handbook

ACRONYMS

A

AAFB - Area Approved for Business
ACA - Asset Control Area
ACD - Accelerated Claims Disposition
ACH - Automated Clearing House
ADP Codes - Automated Data Processing Codes
ADU - Accessory Dwelling Unit
AF - Account in Foreclosure
AHJ - Authority Having Jurisdiction
AHP - Affordable Housing Program
AHPP - Affordable Housing Program Plan
AM - Asset Management
AMC - Appraisal Management Company
AOM – Assignment of Mortgage
APZ - Accident Potential Zone
AQB - Appraiser Qualifications Board
ARM - Adjustable Rate Mortgage
ASC - Appraisal Subcommittee
ATP – Approve to Participate
AUS - Automated Underwriting System
AVM - Automated Valuation Model
AWEA - American Wind Energy Association

B

B2G - Business to Government
BIA - Bureau of Indian Affairs
BPO - Broker's Price Opinion
BPS - Basis Points

C

CAFMV - Commissioner's Adjusted Fair Market Value
CAIVRS - [Credit Alert Verification Reporting System](#)
CBRS - Coastal Barrier Resources System
CC&R - Covenants, Conditions, and Restrictions
CDBG - Community Development Block Grant
CEO - Chief Executive Officer
CFO - Chief Financial Officer
CFPB - [Consumer Financial Protection Bureau](#)
CFR - Code of Federal Regulations
CHUMS - Computerized Homes Underwriting Management System
CI - Combination Inspector

- 1 **CIHD** - Common Interest Housing Development
2 **CLTV** - Combined Loan-to-Value
3 **CMT** - Constant Maturity Treasury
4 **CO** - Certificate of Occupancy
5 **COO** - Chief Operating Officer
6 **COR** – Contracting Officer’s Representative
7 **CPA** - Certified Public Accountant
8 **CPL** - Closing Protection Letter
9 **CVS** - Certificate of Veteran Status
10 **CWCOT** - Claims Without Conveyance of Title
11
12 **D**
13 **DAS** - Deputy Assistant Secretary
14 **DASP** - Distressed Asset Stabilization Program
15 **DBA** - Doing Business As
16 **DCHP** - Detached Condominium Housing Project
17 **DDR** - Delinquency/Default Reason
18 **DDS** - Delinquency/Default Status
19 **DE** - Direct Endorsement
20 **DEC** - Departmental Enforcement Center
21 **DELRAP** - Direct Endorsement Lender Review and Approval Process
22 **DHHL** - Department of Hawaiian Home Lands
23 **DIL** - Deed-in-Lieu
24 **DoD** - Department of Defense
25 **DOJ** - U.S. Department of Justice
26 **DOM** - Days on Market
27 **DTI** - Debt-to-Income
28
29 **E**
30 **EAD** - Electronic Appraisal Delivery
31 **EOCA** - Equal Credit Opportunity Act
32 **eCB** - Electronic Case Binder
33 **EDI** - Electronic Data Interchange
34 **EEH** - Energy Efficient Homes
35 **EEM** - Energy Efficient Mortgage
36 **EESA** - Emergency Economic Stabilization Act
37 **EFT** - Electronic Funds Transfer
38 **EHLP** - Emergency Homeowners’ Loan Program
39 **EIN** - Employer Identification Number
40 **EMT** - Emergency Medical Technician
41 **EPA** - U.S. Environmental Protection Agency
42 **EPD** - Early Payment Default
43 **EPM** - Exit Premium Mortgage
44 **E-Sign Act** - Electronic Signatures in Global and National Commerce Act
45 **EVARS** - Extensions and Variances Automated Requests System

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F

- FAIR** - Fair Access to Insurance Requirements
- FAQ** - Frequently Asked Questions
- FCRA** - Fair Credit Reporting Act
- FDIC** - Federal Deposit Insurance Corporation
- FEMA** - Federal Emergency Management Agency
- FHA** - Federal Housing Administration
- FHA-HAMP** - FHA Home Affordable Modification Program
- FHAC** - [Federal Housing Administration Connection](#)
- FHAC-B2G** - FHA Connection - Business to Government
- FHA Lender ID** - FHA Lender Identification Number
- FHEO** - Office of Fair Housing and Equal Opportunity
- FHLB** - Federal Home Loan Bank
- FHLMC** - Federal Home Loan Mortgage Corporation (also known as Freddie Mac)
- FICA** - Federal Insurance Contributions Act
- FIRM** - Flood Insurance Rate Map
- FMV** - Fair Market Value
- FNMA** - Federal National Mortgage Association (also known as Fannie Mae)
- FOC** - Financial Operations Center
- FRS** - Federal Reserve System
- FSM** - Field Service Manager
- FTV** - First-Time Vacant

G

- GAAP** - Generally Accepted Accounting Principles
- GAAS** - Generally Accepted Auditing Standards
- GAGAS** - Generally Accepted Government Auditing Standards
- GBA** - Gross Building Area
- GEM** - Growing Equity Mortgages
- GFE** - Good Faith Estimate
- GLA** - Gross Living Area
- GNMA** - Government National Mortgage Association (also known as Ginnie Mae)
- GNND** - Good Neighbor Next Door
- GPM** - Graduated Payment Mortgages
- GRM** - Gross Rent Multiplier
- GSA** - General Services Administration
- GSE** - Government-Sponsored Enterprise

H

- H4H** - HOPE for Homeowners
- HAMP** - Home Affordable Modification Program
- HECM** - Home Equity Conversion Mortgage
- HELOC** - Home Equity Line of Credit
- HERMIT** - Home Equity Reverse Mortgage Information Technology

- 1 **HERR** - Home Energy Rating Report
- 2 **HERS** - Home Energy Rating System
- 3 **HFA** - Housing Finance Agency
- 4 **HHF** - Hardest Hit Fund
- 5 **HIP** - Housing Insurance Premium
- 6 **HOA** - Homeowners' Association
- 7 **HOC** - Homeownership Center
- 8 **HOPE** - Homeownership and Opportunity for People Everywhere
- 9 **HRAP** - HUD Review and Approval Process
- 10 **HUD** - U.S. Department of Housing and Urban Development
- 11 **HUDCLIPS** - HUD's Client Information and Policy System
- 12 **HVAC** - Heating, Ventilation and Air Conditioning
- 13

I

- 14
- 15 **IBTS** - Institute for Building Technology and Safety (IBTS)
- 16 **ID** - Identification
- 17 **ICC** - International Code Council
- 18 **ICE** - Inter-Continental Exchange
- 19 **IEC** - International Electrotechnical Commission
- 20 **IECC** - International Energy Conservation Code
- 21 **IHA** - Indian Housing Authority
- 22 **IMIP** - Initial Mortgage Insurance Premium
- 23 **IOG** - Instrumentality of Government
- 24 **IPA** - Independent Public Accountant
- 25 **IRA** - Individual Retirement Account
- 26 **IRC** - Internal Revenue Code
- 27 **IRS** - Internal Revenue Service
- 28

L

- 29
- 30 **LDP** - Limited Denial of Participation
- 31 **LEAP** - [Lender Electronic Assessment Portal](#)
- 32 **LEP** - Limited English Proficiency
- 33 **LES** - Leave and Earnings Statement
- 34 **LESA** - Life Expectancy Set-Aside
- 35 **LI** - Lender Insurance
- 36 **LIBOR** - London Interbank Offered Rate
- 37 **LLC** - Limited Liability Company
- 38 **LOMA** - Letter of Map Amendment
- 39 **LOMR** - Letter of Map Revision
- 40 **LTV** - Loan-to-Value
- 41 **LURA** - Land Use Restriction Addendum
- 42

M

- 43
- 44 **M&M** - Management and Marketing
- 45 **MAP** - Multifamily Accelerated Processing

- 1 **MCA - Maximum Claim Amount**
2 **MCM - Mortgagee Compliance Manager**
3 **MDCS - Minimum Decision Credit Score**
4 **MERS - Mortgage Electronic Registration System**
5 **MHCP - Manufactured Home Condominium Project**
6 **MHCSS - Manufactured Home Construction and Safety Standards**
7 **MIC - Mortgage Insurance Certificate**
8 **MIP - Mortgage Insurance Premium**
9 **MISMO - Mortgage Industry Standards Maintenance Organization**
10 **ML - Mortgagee Letter**
11 **MLS - Multiple Listing Service**
12 **MMI - Mutual Mortgage Insurance**
13 **MMIF - Mutual Mortgage Insurance Fund**
14 **MOE - Mortgagee Optional Election**
15 **MPR - Minimum Property Requirements**
16 **MPS - Minimum Property Standards**
17 **MRB - Mortgagee Review Board**
18 **MRI - Minimum Required Investment**
19 **MRIS - Minimum Residual Income Shortfall**
20
21 **N**
22 **NADA - National Automobile Dealers Association**
23 **NAID - Name and Address Identification Number**
24 **NAR – National Association of Realtors**
25 **NBS - Non-Borrowing Spouse**
26 **NCUA - National Credit Union Administration**
27 **NDC - Net Development Cost**
28 **NFIP - National Flood Insurance Program**
29 **NHOP - Nehemiah Housing Opportunity Grants Program**
30 **NMLS - Nationwide Mortgage Licensing System and Registry**
31 **NOD - Notice of Deficiency**
32 **NOPA - Notice to Occupant of Pending Acquisition**
33 **NOR - Notice of Return**
34 **NOV - Notice of Violation**
35 **NPDMS - Nonprofit Data Management System**
36 **NPIOG - Nonprofit Instrumentality of Government**
37 **NPL - Net Principal Limit**
38 **NPMA - National Pest Management Association**
39 **NRTL - Nationally Recognized Testing Laboratory**
40 **NSC - National Servicing Center**
41 **NSF - Insufficient Funds**
42 **NSP - Neighborhood Stabilization Program**
43 **NTMCR - Non-Traditional Mortgage Credit Report**
44

- 1 **O**
2 **OGC** - Office of General Counsel
3 **OIG** - Office of Inspector General
4 **OLG** - Office of Loan Guarantee
5 **ONAP** - Office of Native American Program
6 **OSFAM** - Office of Single Family Asset Management
7 **OUI** - Oldest Unpaid Installment
8
9 **P**
10 **P&I** - Principal and Interest
11 **P&L** - Profit and Loss
12 **P&P** - Preservation and Protection
13 **PACE** - Property Assessed Clean Energy
14 **PCR** - Property Condition Report
15 **PCS** - Permanent Change of Station
16 **PDF** - Portable Document Format
17 **PDMDA** - Presidentially-Declared Major Disaster Area
18 **PFGMH** - Permanent Foundations Guide for Manufactured Housing
19 **PFS** - Pre-Foreclosure Sale
20 **PHA** - Public Housing Agency
21 **PIN** - Personal Identification Number
22 **PITI** - Principal, Interest, Taxes, and Insurance
23 **PMMS** - Primary Mortgage Market Survey
24 **POA** - Power of Attorney
25 **POC** - Paid Outside Closing
26 **PPA** - Power Purchase Agreement
27 **PSA** - Participating Servicer Agreement
28 **PTI** - Total Mortgage Payment to Effective Income Ratio
29 **PUD** - Planned Unit Development
30
31 **Q**
32 **QAD** - Quality Assurance Division
33 **QC** - Quality Control
34 **QM** - Qualified Mortgage
35 **QOZ** - Qualified Opportunity Zone
36 **QR** - Quick Response
37
38 **R**
39 **RCI** - Residential Combination Inspector
40 **REO** - Real Estate Owned
41 **RESPA** - Real Estate Settlement Procedures Act
42 **RLARM** - Residential Loan Application for Reverse Mortgages
43 **RMCR** - Residential Mortgage Credit Report
44 **RPZ** - Reduced Pressure Zone
45

- 1 **S**
2 **SAFE Act** - Secure and Fair Enforcement for Mortgage Licensing Act of 2008
3 **SAM** - [System for Award Management](#)
4 **SBA** - Small Business Administration
5 **SCA** - Sales Comparison Approach
6 **SCRA** - Servicemembers Civil Relief Act
7 **SF** - Single Family
8 **SFB** - Special Forbearance
9 **SFDMS** - Single Family Default Monitoring System
10 **SFHA** - Special Flood Hazard Area
11 **SFIS** - Single Family Insurance System
12 **SFLS** - Single Family Loan Sale
13 **SNAP** - Supplemental Nutrition Assistance Program
14 **SOFR** - Standard Overnight Financing Rate
15 **SPPA** - Solar Power Purchase Agreement
16 **SSA** - Social Security Administration
17 **SSI** - Supplemental Security Income
18 **SSN** - Social Security Number
19 **SWCC** - Small Wind Certification Council
20
21 **T**
22 **TALC** - Total Annual Loan Cost
23 **TDD** - Telecommunication Device for the Deaf
24 **TDHE** - Tribally Designated Housing Entities
25 **TILA** - Truth in Lending Act
26 **TIN** - Tax Identification Number
27 **TOTAL** - Technology Open To Approved Lenders
28 **TPO** - Third-Party Originator
29 **TPP** - Trial Payment Plan
30 **TPV** - Third Party Verification
31 **TRMCR** - Tri-Merged Credit Report
32 **TRS** - Tier Ranking System
33 **TS** - Transaction Set
34 **TTY** - Text Telephone
35
36 **U**
37 **UAD** - Uniform Appraisal Dataset
38 **UETA** - Uniform Electronic Transactions Act
39 **UFMIP** - Upfront Mortgage Insurance Premium
40 **URL** - Uniform Resource Locator
41 **URLA** - Uniform Residential Loan Application
42 **URAR** - Uniform Residential Appraisal Report
43 **U.S.C.** - United States Code
44 **USCIS** - U.S. Citizenship and Immigration Services
45 **USDA** - United States Department of Agriculture

- 1 **USGS** - U.S. Geological Survey
- 2 **USPAP** - [Uniform Standards of Professional Appraisal Practice](#)
- 3 **UST** - Underground Storage Tanks
- 4
- 5 **V**
- 6 **VA** - Department of Veterans Affairs
- 7 **VOD** - Verification of Deposit
- 8 **VOE** - Verification of Employment
- 9
- 10 **X**
- 11 **XML** - Extensible Markup Language
- 12
- 13

DRAFT