Reverse Mortgage

Underwriting Guidelines

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Underwriting Guidelines

Overview

A Home Equity Conversion Mortgage (HECM) is a type of reverse mortgage that is insured by the Federal Housing Administration (FHA). HECMs allow seniors to convert the equity in their home to cash. The amount that may be borrowed is based on the appraised value of the home (subject to FHA limits), and the age of the borrower (borrowers must be at least 62 years old). Money is advanced against the value of the equity in the home. Interest accrues on the outstanding loan balance, but no payments must be made until the home is sold or the loan reaches a maturity event.

HECM TRANSACTION TYPES

There are 3 transaction types available under the HECM program:

- HECM Traditional Refinance: A refinance in which the equity in the borrower's current property secures the mortgage.
- HECM to HECM Refinance: A refinance of an existing HECM with a new HECM for the same borrower and property.
- HECM for Purchase: Also known as an H4P, an HECM for Purchase is designed for the purchase of a new primary residence.

HECM Traditional Refinance

In an HECM traditional refinance, a reverse mortgage is used to refinance a property when existing liens (if any) are paid off, typically using the funds available at closing.

HECM to HECM Refinance

An HECM to HECM (H2H) refinance exists when an existing HECM loan is refinanced into a new HECM loan. The following requirements must be met in an H2H refinance:

- The loan must pass the H2H benefit tests.
- There must be a bona fide benefit to the borrower.

HECM to HECM Required Documents for Application

To prepare the application as an H2H refinance and determine both the benefit to the borrower and the amount of MIP credited on the loan, we will require the following information at the time the application is requested:

- Current HECM servicing statement.
- Current HECM FHA Case Number.

Note: It may take 24 business hours to 'unarchive' the current HECM FHA Case Number in order to obtain the previous upfront MIP amount. This information, along with the current servicing statement, is necessary to complete the anti-churning disclosure that must be sent with the initial application package. If this information is not provided, an application cannot be sent out. The anti-churning disclosure must be signed and dated by the borrower(s) at the time of application.

HECM to HECM Benefit Tests

Benefit Test Worksheet: All 3 tests must be met unless a co-borrower or NBS is being added to the loan.

- Seasoning Test: The HECM refinance must have a case assignment date that is at least 18 months after the date of closing prior to the HECM.
- Closing Cost Test: The increase between the prior HECM principal limit and the new HECM principal limit must equal or exceed 5 times the total closing costs.
- Proceeds Test: The principal limit of the new HECM minus both the prior HECM's loan balance and total closing costs must be equal to (or exceed) 5% of the prior HECM principal limit.

  NOTE: Only the Seasoning Test must be met if adding a co-borrower or NBS.

Exceptions to meeting any of the three tests will be reviewed by management to determine if there is a bona fide benefit to the borrower.

Required Documents

- Counseling Certificate: See the HECM to HECM Refinance Requirements in the Counseling section of the guide for more information on when counseling can be waived.
- Anti-Churning Disclosure: To be completed and provided to the borrower(s) at time of initial disclosures.
- Current HECM Mortgage Statement
- May require Current HECM Mortgage Statement within 30 days of closing and the Pay-off Statement from current servicer.
- The borrower cannot be delinquent or in default on the existing HECM loan due to any of the following:
  - Delinquent Taxes: Can be paid during closing, but a LESA will be assessed.
  - Past Due or Force-Placed Insurance: borrower will have to obtain a new policy and a LESA will be assessed.
- Incomplete Property Repairs: The default(s) will need to be satisfied prior to closing. Other defaults will be reviewed on a case-by-case basis.
- Previous HECM Case Query: Case Assignment must reflect the prior HECM loan information (Existing Loan Information) Mortgage Insurance Premium Credit.

If the borrower has a current insured HECM loan and is refinancing with a new HECM, the borrower may be eligible for a MIP reduction. The amount of MIP credited to the borrower is based on the upfront MIP received on the prior HECM loan as reflected on the previous HECM case query.

HECM for Purchase

A reverse mortgage purchase transaction enables a borrower to purchase a home without depleting all of their personal financial resources for the acquisition. The borrower is required to make a monetary investment using their own funds or gift funds; the HECM would then be used to cover the remainder of the purchase price.

- Funds used for the earnest money deposit, down payment, and funds to close must be verified, including the source of the funds from any allowable FHA funding source(s)
- If the borrower's primary residence has an existing FHA-insured loan, it must be satisfied prior to or simultaneously to the closing on the subject property
- The borrower(s) must occupy the subject property within 60 days of closing
- The Max Claim Amount (MCA) is the lesser of: appraised value, sales contract price or FHA national mortgage limit.

Existing Construction
Refers to a property that has been 100% complete for over one year or has been completed for less than one year and was previously occupied.

New Construction
Refers to proposes construction, properties under construction, and properties existing less than one year as defined below:

Proposed Construction: Refers to a property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.

Under Construction: Refers to the period from the first placement of permanent material to 100% completion with no Certificate of Occupancy (CO) or equivalent.

Existing Less than One Year: Refers to a property that is 100% complete and has been completed less than one year from the date of issuance of the CO or equivalent. The property must have never been occupied.

Principal Residence
According to HUD's regulatory requirements guide, HECM for Purchase can only be used to purchase a primary residence; HECM for Purchase cannot be used to purchase investment properties or second homes. Borrowers can have only one principal residence at a time.

Retaining Existing Primary Residence
A departure property exists when the borrower(s) intends to retain their existing primary residence as a rental property or second home. To qualify, the borrower(s) must:

- Continue to make the mortgage payment, taxes, insurance, HOA dues, and special assessments on the existing mortgage.
- Relocate to an area more than 100 miles from the borrower's current primary residence.

The borrower's loan file must also contain documentation of the mortgage payment, property taxes, insurance, and HOA dues that will be included in the Financial Assessment.

Eligible Property Types

- Site Built Housing (1 – 4 Units) (including site condos and PUDs)
- Condos are still required to meet all FHA requirements, and the condo project must be FHA approved or be approved as a single unit approval (SUA) by the underwriter. See section on Condominiums for details.

- Manufactured Housing Properties previously acquired through a contract for deed, land contract, or other similar arrangements must be treated as a purchase transaction when HECM funds will be used to satisfy outstanding payment obligations.

New Construction Inspection Requirements (Based on time of appraisal)

- Site Built Housing, Condos and Manufactured Housing
  - Proposed Construction
    - Building permit and CO (or equivalent); or
    - Three inspections (footing, framing and final) performed by the local authority with jurisdiction over the property or an ICC certified RCI or CI (for Modular housing, footing and final only) **Only two inspections (initial and final) are required for manufactured housing**
  - Under Construction
    - Building permit and 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
  - Existing Less than One Year
    - CO (or equivalent); or **Manufactured Condos must obtain a CO (or equivalent)**
    - A final inspection issued by the local authority with jurisdiction over the property or by an ICC certified RCI or CI

Documents Required at Time of Appraisal Order

The following docs are required when ordering an appraisal for any new construction property:

- Fully executed Purchase Contract with all addendums and attachments.
- Fully executed form HUD-92541, Builders Certification of Plans, Specifications, and Site. No more than 30 days prior to the date the appraisal was ordered, and before performing the appraisal.
- For properties 90% completed or less, a copy of the floor plan, plot plan and any other exhibits necessary to allow the appraiser to determine the size and level of finish of the subject property.
- For properties greater than 90% but less than 100% complete, a list of remaining components to be installed or completed.

Documents Required prior to Final Approval

The following documents will be required prior to final approval of the loan:

- Form HUD-92544 (Warranty of Completion of Construction
- Certificate of Occupancy (or equivalent) **If the locality doesn't issue a CO, a final inspection completed on form HUD-92541 by an International Code Council (ICC) certified Residential Combination Inspector (RCI) or Combination Inspector (CI) is required**
- Required inspections, as applicable
- Wood Infestation Report (unless the property is located in a county listed as not required on HUD's "Termite Treatment Exception Area" list)
  - Form HUD-NPMA-99-A, Subterranean Termite Protection Builders Guarantee, is required for all new construction. If the property is constructed with steel, masonry, or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed.
  - Form HUD-NPMA-99-B, New Construction Subterranean Termite Service Record, is required when the proposed property is treated with one of the following: termite bait system, field applied wood treatment, a soil chemical termiticide, or a physical barrier system is installed (as reflected on HUD-NPMA-99-A). **Post construction termiticide soil treatment is not acceptable when applied only around the perimeter of the foundation.
- FHA Amendatory Clause and Real Estate Certification signed/dated by all parties (buyer, seller, realtors, etc.)
- Local heath authority well water analysis and/or septic report, when required by local jurisdictional authority
- Final Inspection: A final inspection by the appraiser will be required if the property was not 100% complete at time of appraisal inspection.

There are no special requirements when a borrower purchases a foreclosed home. FHA has existing and sufficient valuation guidelines related to comparable sales and declining markets to address the resale of foreclosed properties.

Purchase Contract Requirements

- Copy of the fully executed purchase agreement and all addendums including the FHA real estate certification and amendatory clause. This document indicates the borrower, seller, and the selling real estate agent or broker involved in the transaction certify that the terms and condition of the sales area are true to the best of their knowledge and any other agreement entered into by the parties involved regarding the transaction is part of or attached to the sales agreement.
- All parties on the contract must initial any changes (including all addendums) to the purchase agreement. Any changes or addendums must be reviewed and approved by underwriting prior to closing.
- All purchasers on the contract must be borrowers and only those borrowers may sign the contract. This includes a Non-Borrowing Spouse (NBS) though the NBS is not required to sign the sales contract.
- If the subject property is encumbered with a Property Assessed Clean Energy (PACE) obligation, the sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to, closing.
- Rent back/leaseback agreements with the seller that extend longer than 60 days are not allowed.

HECM Application Disclosures

The following application disclosures are required to be included in the loan prior to docs:

- H4P-FHA-Amendatory Clause and Real Estate Cert. to be signed/dated by all parties.
- FHA Notice to Homebuyer.
- Lead Based Paint disclosure. **If it is certified that a child under six year of age will reside in the property, additional requirements will apply**
- H4P-For Your Protection, Get a Home Inspection form to be provided to applicants and included in loan file at application and verify it is in our package.
- Occupancy Affidavit form to be signed/dated at closing (intent to owner occupy the property within 60 days of close.

Asset Requirements – Acceptable Source of Funds

EARNEST MONEY DEPOSIT (EMD)

- See 'Earnest Money Deposit' section under "Assets".

MONETARY INVESTMENT

To satisfy the required monetary investment, borrowers may use:

- Cash on Hand;
- Cash from the sale or liquidation of borrower's assets;
- HECM proceeds;
- Interested Party Contributions; and
- Acceptable sources of funds (as listed in "Assets")

A family member entitled to the real estate commissions may also provide it as a gift, following the requirements for giving a gift.

A borrower who is listed as the licensed real estate agent, may use the commissions to satisfy the requirement monetary investment.

In both cases above, documentation that the family member or borrower are licensed real estate agents and they are entitled to real estate commissions from the transaction are required.

Unacceptable sources of funds to satisfy the required monetary investment include: Sweat Equity, Trade Equity or Rent Credit.

PREMIUM PRICING

- Premium pricing is acceptable to be used to pay the borrower's closing costs and prepaid items.

Interested Party Contributions/Seller Concessions

Interested parties include sellers, real estate agents, builders, developers, lenders, brokers, or other parties with an interest in the transaction. Contributions by interested parties are allowable as follows:

- 6% of sales price towards the borrower's origination fees, other closing costs (**Including IMIP**) including Paid Outside of Closing (POC) items, prepaid items and discount points.
- The 6% limit may not exceed the actual total of the costs listed in the above bullet point.
- Premium Pricing is excluded from the 6% limit so long as the lender or broker are not the seller, real estate agent, builder or developer.
- Fees customarily required to be paid by the seller are excluded from the 6% limit. Examples are real estate agent commissions or fees, home warranty policy, owner's title policy, among others.
- PACE liens or obligations that are satisfied by the seller are not considered an interested party contribution.

Identity of Interest (Non-ARM's Length)

A non-arm's length transaction is not permitted on an H4P. An identity of interest is also known as a non-arm's length transaction, which is when any party involved in the financing, sale, or purchase of a property are not, nor do they appear to be, independent of each other.

Examples of non-arm's length transactions include but are not limited to: relatives, employer/employee, landlord/tenant, home builders, real estate brokers/agents, third-party service vendors, etc.

CREDIT REQUIREMENTS

Credit History

If a traditional credit report is available, it must be used for financial assessment. If a traditional credit report is not available, a non-traditional credit history must be obtained. The non-traditional credit must contain at least three credit references. The non-traditional credit history must include at least one of the following:

- A filed notice of default (NOD).
- A deed-in-lieu foreclosure.
- Short sales (short sales and settled mortgages are considered foreclosure events).

Chapter 7 Bankruptcy

Chapter 7 bankruptcy does not disqualify a borrower from an HECM for Purchase if at least two years have elapsed since the bankruptcy discharge to the date of the new HECM case assignment. During this time, the borrower must have:

- Re-established good credit.

  OR

- Chosen not to incur new credit.

A period of less than two years but not less than 12 months may be considered if the borrower:

- Can show the bankruptcy was caused by extenuating circumstances beyond the borrowers control.
- Has since proven the ability to manage all finances in a responsible manner.
- Can show that the events that led to the bankruptcy are not likely to reoccur.
- Has documented the discharge date with either a credit report or actual bankruptcy discharge papers.

Chapter 13 Bankruptcy

Chapter 13 bankruptcy does not disqualify a borrower from the HECM for Purchase if at least 12 months of the payout period have elapsed since the time of bankruptcy inception to the date of the new HECM case assignment.

The borrower must obtain written permission from the court and signed by a judge. The court approval must meet the following guidelines:

- The approval must specifically approve the HECM mortgage.
- The approval must state the loan is a negative amortization loan.
- The approval must not state a specific interest rate.

In addition, we will require:

- Letter from trustee to include all debts included in the chapter 13 and amount of approved monthly payment plan.
- 12-month payment history from trustee to verify no derogatory payments.
- Must be able to qualify with monthly bankruptcy payment included in liabilities.

Tax and Insurance

- Tax and insurance set-asides are permitted, but gift funds cannot be used to fund a tax and insurance set-aside (LESA).
- For new construction, the mill levy will be required to calculate proposed property taxes.
- One year of hazard insurance premiums must be paid at closing.
- If applicable, one year of flood insurance premiums must be paid at closing.

HECM Purchase Conditions at Closing

In addition to all other standard HECM conditions that apply to the loan:

- Title must verify all taxes have been paid and are current.
- Closer must certify funds to close are adequate and do not exceed the amount verified by underwriting.

NOTE: There is no rescission on an HECM for Purchase. The loan funds the same day as closing.

Property Flipping

"Property flipping" refers to the purchase and subsequent resale of a property in a short period of time, specifically less than 181 days.

The eligibility of a property for a mortgage insured by FHA is determined by the time that has elapsed between the date the seller has acquired title to the property and the date of execution of the sales contract that will result in the FHA-insured mortgage.

FHA defines the seller's date of acquisition as the date the seller acquired legal ownership of that property.

FHA defines the resale date as the date of execution of the sales contract by all parties intending to finance the property with an FHA-insured mortgage.

- Property cannot have been flipped (resale date within 90 days).
- To be eligible for any FHA-insured mortgage, the property must be purchased from the owner of record and the transaction may not involve any sale or assignment of sales contract.
- Documentation verifying the seller is the owner of record is required. The documentation may be shown with a title commitment demonstrating the seller's ownership of the property and the date it was acquired.
- Resale between 1-90 days is prohibited.
- Any resale of a property between 91-180 days and whereby the new sales price exceeds the previous sale price by 100% or more will require a second appraisal (lender orders). The lesser of the two values (list price and second appraisal) will be used to determine the lending value.

Properties Exempt from Flipping Time Restrictions

- State and federally chartered financial institutions and government-sponsored enterprises (e.g., Fannie Mae and Freddie Mac)*
- Local and state agencies*
- Nonprofits approved to purchase HUD REO properties at a discount*
- Sales of properties within Presidentially Declared Disaster Areas (upon FHA's announcement of eligibility in a letter to the lender specific to the disaster)*
- Inherited properties*
- New construction homes sales with a builder

NOTE: *Documentation evidencing these categories must be provided.

BORROWER ELIGIBILITY

All borrowers involved on an HECM must satisfy the following requirements:

- Must be at least 62 years of age at the time of closing.
- Must have lawful residency status in the United States as a U.S. citizen or lawful permanent resident alien.
- At least one borrower must live in the home at least 6 months of the year (or 183 days out of the year).
- At least one borrower must be on title prior to application.

Age Requirements

At the time of initial application, the youngest borrower's 62nd birthday must occur within 60 days. All borrowers must be at least 62 years of age at closing (i.e., on the day of closing).

Citizenship and Immigration Status

In addition to U.S. citizens, permanent and conditional permanent residents (formerly known as non-permanent residents) are eligible for reverse mortgages under the same terms as U.S. citizens, subject to the following:

- A permanent resident card or other unexpired documentation issued by the U.S. Citizenship and Immigration Services (USCIS) evidencing the right to reside in the U.S. must be provided.
- If an authorization for temporary residency status will expire within one (1) year and a prior history of renewals exists, it may be assumed that continuation will be granted, allowing the applicant to proceed.
- If there are no prior renewals, the likelihood of renewal must be determined based on information provided by USCIS. This information must be provided in writing and documented in the loan file.
- All borrowers and NBS must have a valid Social Security number.

Occupancy

HECM guidelines require the subject property to be the primary residence of the borrower(s). Primary residence is defined as the home where the borrower(s) maintain(s) the permanent place of residence (more than half the year). A person may have only one principal residence at a time.

"Occupancy" is the length of time the borrower has lived in the subject property, regardless of how long they have owned it. HECM loans require the borrowers to live in the subject property as their principal residence and for the majority of any calendar year.

Underwriters will review the the borrower's and, if applicable, the non-borrowing spouse's address on the 1009, driver's license (or alternative form of identification), credit report (other address section), preliminary title report (chain of title), and any other supporting documents. If all addresses are consistent, there are no occupancy concerns, and no additional documentation is required.

If there is an occupancy concern, the following documents can be considered to support occupancy based on the specific loan scenario:

- Social Security check, if not deposited
- Personal voided check
- Mortgage statement
- Auto insurance policy
- Credit card statements covering the most recent 3-month period
- Previous year's tax returns

Multiple Properties

If multiple properties are owned by the borrower(s), the following items may be required:

- Explanation letter from the borrower(s) that provides:
  - The date the borrower moved into the subject property.
  - A list of all properties the borrower/spouse owns.
  - Current use of any property the borrower/spouse owns and supporting documentation, such rental agreements, evidence of sale, etc.
  - Explanation of any address discrepancies and other addresses listed on the credit report.
  - Months of the year the borrowers spend in each home if they own a second/vacation home.
- Copy of most recent Social Security award letter showing the subject property address:
  - Copy of most recent bank statement reflecting the borrower's Social Security direct deposit and showing the subject address.
  - Copy of the most recent phone bill reflecting the subject property mailing address.
  - Copy of the borrower's most recent cable or utility bill reflecting the subject property mailing address.

Title Seasoning

Title seasoning is the length of time the borrower has owned the property and is based on the recorded date of the deed that vests the title of the subject property to the borrower. There is no minimum time frame that a borrower must be vested on title before applying for a reverse mortgage. If there has been a transfer of ownership within the past 12 months, a letter of explanation and additional documentation may be required for a recent transfer.

An acceptable reason for the recent transfer of ownership can include, but is not limited to, the following:

- Recent Purchase Transaction: If the borrower purchased the property less than 12 months from the time of application from someone to whom they are not related, we will require:
  - The settlement statement from the purchase of the property
  - Proof of funds at closing, such as a cashier's check or wire transfer
  - Any unexplained increases in value from the time of purchase may require further documentation.

Non-Borrowing Spouse

A non-borrowing spouse (NBS) is an individual that is the spouse of the borrower but will not be participating as a borrower to the HECM. A "spouse" is defined by the law of the state in which in the borrower and spouse reside or by the state where the marriage took place. Depending on the state law, this may include domestic partners, common law spouses and civil unions. If the borrower is legally separated, the NBS guidelines still apply.

NOTE: Civil unions, such as common-law marriages, recognized in the United States provide the same property rights as husband and wife. Therefore, it is necessary to inquire if the applicant(s) are involved in a civil union.

NBS Requirements

The NBS will be classified as either an eligible or ineligible NBS which determines whether the borrower qualifies for a deferral period once the HECM loan has met a maturity event.

The following requirements apply to ALL NBS:

- Be at least 18 years of age
- Receive HECM counseling from a HUD-approved counselor
- Be named as an NBS in the HECM application and closing documents
- Execute the authorization to pull credit on NBS Form
- Execute the SSA-89 Form or the like to verify social security number
- Provide evidence of date of birth
- Provide evidence of Social Security number
- Provide evidence of occupancy

FHA Case Assignment must have the following completed for an NBS:

- Marital status
- Full name of NBS
- NBS date of birth
- NBS Social Security number
- Pass CAIVRS verification

NOTE: An NBS, whether eligible or ineligible, can remain on title to the subject property.

Eligible Non-Borrowing Spouse

This is a non-borrowing spouse who DOES live in the subject property as their principal residence. They are eligible for deferral benefits to stay in the home without refinancing or paying off the HECM mortgage after the spouse dies.

NOTE: Eligible NBS are not allowed in Texas.

NOTE: The deferral period allows the surviving NBS to remain in the home; however, the NBS does not have access to any remaining HECM proceeds.

Principal Limit

The principal limit will be based on the age of the youngest borrower or eligible NBS that occupies the property. Ineligible NBS do not affect the principal limit calculation.

Eligible NBS Credit Report

A credit report for an eligible NBS is only required if income is used as a compensating factor or to reduce family size for financial assessment. All federal tax liens must be satisfied and the NBS cannot have any outstanding FHA loans.

NOTE: Income from an ineligible NBS cannot be used as a compensating factor or to reduce family size.

Ineligible Non-Borrowing Spouse

This is a non-borrowing spouse who does not live in the subject property as their primary residence. Because the mortgage property is not their primary residence, the mortgage would be called due upon the death of the borrower.

Power of Attorney (POA) for NBS

A POA is not allowed for convenience and can only be used for an incompetent NBS. A POA used for an incompetent NBS will need to be reviewed and approved by senior management.

Non-Borrowing Owner

A non-borrowing owner (NBO) is an individual vested on the property's title but is not financially obligated to repay the loan. An NBO could be a parent, sibling, or child. An NBO is not required to live in the property.

Non-Borrowing Owner/Household Member Credit Report

A credit report for an non-borrowing owner/household member is only required if income is used as a compensating factor or to reduce family size for financial assessment. All federal tax liens must be satisfied and the NBS cannot have any outstanding FHA loans.

NOTE: Deferral benefits are strictly for non-borrowing spouses. Non-borrowing owners are ineligible for deferral benefits. (See Non-Borrowing Spouse section for further clarification.)

Application Requirements

The NBO must:

- Complete counseling and execute the counseling certificate.
- Provide valid government-issued identification.
- Sign the certification of non-borrowing owner's disclosure.

Closing Requirements

When the NBO remains on title through closing, the NBO must sign the following documents at the time of closing:

- Mortgage security instruments and any riders
- Home Equity Conversion Mortgage Notice of Right to Cancel
- Truth in Lending Disclosure
- Non-Borrowing Owner Certificate of Acknowledgment

COUNSELING & COUNSELING CERTIFICATION

As part of the HECM-qualifying process, all involved applicants must receive financial counseling from an independent, third-party financial counselor. The counselor must be approved by the U.S. Department of Housing and Urban Development (HUD) and must submit a signed certificate of counseling to their Loan Originator (LO). The specific qualifications on HECM counseling can vary by state and are outlined in this section.

Counseling Certification

- Valid for 180 days from the date counseling was received
- The HECM application and the FHA case assignment must be completed while the certificate is valid.
  Note: Except in Texas, the loan can close after the certificate has expired so long as the FHA Case Number was obtained while the certificate was valid.
- Evidence of counseling must be found in the FHA Connection's case assignment

Parties to be Counseled

- All parties vested in the property at the time of closing
- All legally competent borrowers
- Legally competent non-borrowing spouses (both ineligible and eligible)
- Any attorney-in-fact (POA), guardians, or conservators if the borrower(s), NBS, or NBO are considered legally incompetent
- Additional information can be found in the POA section of this document
- Remaindermen, if vesting in a life estate

Compliance Requirements

The following activities are prohibited until the signed and dated counseling certificate has been received from the borrower(s):

- Case Number Assignment
- Verifying Flood Certificate
- Ordering Appraisal (must be ordered after the Case Number Assignment date)
- Ordering Termite Report

NOTE: Fees cannot be charged to the borrower for third-party services before the date counseling certificate was signed. If such fees have been collected before the counseling certification signature date, those fees cannot be charged to the borrower.

Counseling Certificate Fees Paid by Borrower(s)

- The counseling fee must be disclosed in the initial Good Faith Estimate (GFE).
- The counseling fee should be reasonable and customary for the service provided, and should not exceed the actual cost of the session.
- A copy of the invoice for counseling services will be required at or before the time of the document/closing request.

HECM to HECM Refinance Counseling Requirement

For HECM to HECM (H2H) refinance transactions, underwriting may consider waiving the counseling requirement if ALL the following conditions are met:

- All borrowers must sign the required HECM Anti-Churning Disclosure Form.
- The increase in the loan's principal limit exceeds the total cost of the HECM refinance by an amount equal to five times the cost of the transaction (as provided in the Anti-Churning Disclosure). If the benefit factor falls below the 5:1 ratio at any time prior to or at closing, counseling must be completed.
- The time between the closing on the ORIGINAL HECM and the application for the H2H refinance does not exceed five years.
- The original counseling certificate is provided, evidencing that all parties have been counseled.
- The FHA Case Number must have been assigned on or after August 4, 2014, and the borrower and non-borrowing spouse, if applicable, must have both received counseling; OR the case number was assigned PRIOR TO August 4, 2014, and there is no non-borrowing spouse.
- The state where the subject property is located permits counseling to be waived. Please see State Specific Requirements section to verify which states will not allow waiver of counseling.

State Specific Requirements

The following states DO NOT allow waiving counseling for HECM to HECM Refinances:

- California
- Delaware
- Hawaii
- Indiana
- Louisiana
- Maryland
- Massachusetts
- Minnesota
- Pennsylvania
- Rhode Island
- Tennessee
- Texas
- Vermont

NOTE: A "business day" is defined as any calendar day except Saturday, Sunday, or a state or federal holiday.

California

- A 7-day cooling-off period from the date of counseling is required before allowing any fees to be assessed. File intake must review the counseling date to ensure the FHA Case Assignment is not complete until, on, or after the eighth calendar day.

  NOTE: NBS are not subject to cooling-off periods in California.

  - All fees incurred during the 7-day cooling-off period are considered non-compliant and my not be charged to the borrower, with the exception of the credit report and the preliminary title search.
- Reverse Mortgage Worksheet guide and the Important Notice to Reverse Mortgage Loan Applicant disclosures must be signed and dated on or before the date of counseling.
- Notice of the 7-day waiting period must be signed and dated on or after the date of counseling.
- When the counseling wasn't completed in person, an addendum to the Certificate of Counseling must be completed by the counseling agency.

Minnesota

- Counseling agencies must be HUD-approved and physically located in Minnesota

Texas

- Closing must take place before the counseling certificate expiration date
- Certificates are valid for 180 days and cannot be extended
- Closing cannot occur for at least 5 days AFTER the counseling date

LOAN APPLICATION AND SUPPORTING DOCUMENTATION

All borrowers and lenders are required to sign the Residential Loan Application for Reverse Mortgage, or the 1009, at the time of application and closing.

The 1009 signed at application is referred to as the initial 1009 and the 1009 signed at closing is referred to as the final 1009.

The application may be in writing or electronically submitted, including a written record of an oral application (e.g., via telephone).

The application legally authorizes the application process to begin. Though no costs may be incurred, with the exception of the credit report fee, until the borrower has completed the required reverse mortgage counseling.

The Real Estate Settlement Procedures Act (RESPA) defines an application as the submission of a borrower's financial information in anticipation of a credit decision on a federally related mortgage loan. This includes a minimum of the following six (6) pieces of information:

- Borrower's name
- Borrower's monthly income
- Borrower's Social Security number
- Property address
- Estimate of the value of the property
- Requested loan amount

The application must have no erasures or whiteouts and should contain accurate information as provided by the borrower. If a correction is made, then the borrower must draw a single line through the incorrect content, handwrite the correct content, and initial the change.

Unmarried co-borrowers may apply using a single loan application.

The initial disclosures must be sent at or within three (3) days of the initial 1009.

Identification Documentation

The company must obtain identifying documentation from each of the following parties participating in a reverse mortgage:

- All borrowers (primary and secondary ID)
- Non-borrowing spouse (primary and secondary ID)
- Non-borrowing owner (primary ID only)
- Power of attorney agent, guardian, or conservator (primary ID only)

Date of Birth Evidence (Primary ID)

The following are acceptable items to prove date of birth:

- Government-issued driver's license or ID card (must not be expired)
- Military ID (copied both front and back)
- Certified birth certificate (accompanied by a marriage certificate if name has changed)
- U.S. passport (must not be expired)
- Letter from the Social Security Administration (acknowledged by SSA if applicable)
- Certificate of U.S. Naturalization (Form N-550) or U.S. Alien Registration

NOTE: If the borrower's current name differs from the name on the evidence, a clear link will need to be established (i.e., if the borrower has married, a marriage certificate will satisfy the requirement).

Social Security Number Evidence (Secondary ID)

Acceptable forms of Social Security number identification:

- Social Security cards issued by the U.S. Government
- Printout from the Social Security Administration (acknowledged by SSA if applicable)
- W2 Form
- Form 1098 or 1099

Unacceptable forms of Social Security number identification:

- Pay stubs
- Tax returns
- State-issued driver's license
- Any third-party verification
- Plastic or metal cards

NOTE: If the borrower's current name differs from the name on the evidence, a clear link will need to be established (i.e., if the borrower has married, a marriage certificate will satisfy the requirement).

USPS Verification

USPS is required to confirm that the subject property's address is correct in the file.
This is done on the USPS website: USPS.com

If an address cannot be verified through the USPS system, then other records (such as county documentation) will need to be supplied.

Federal Exclusion Lists

The borrower, anyone acting on behalf of the borrower, or any parties to the transaction may not be suspended, debarred, or otherwise excluded from participating in HUD's programs.

HUD's Limited Denial of Participation List (LDP) and the System for Award Management (SAMS) will be used to determine if any party to the transaction appears on the list.

LDP https://www5.hud.gov/Ecpcis/main/ECPCIS_List/main/ECPCIS_List.jsp

SAMS https://sam.gov/SAM/pages/public/searchRecords/search.jsf

A reverse mortgage will not be eligible for mortgage insurance if the name of any party (see below) appears on either list. LDP/SAMS verification is valid for 120 days from the date it was pulled. LDP and SAMS must be pulled for the following parties:

- All borrowers
- Originating loan officer
- Underwriter
- Appraisal company
- Settlement agent
- All trustees, if other than the borrower(s)
- Real estate agent
- Builder
- NBS with all AKAs shown on the credit report
- Loan processor
- Appraiser
- Title company
- POA, conservator, or guardian (if applicable)
- Any contractors doing repairs on the home
- Seller

Resolving a SAMS "Hit"

If an individual has an active exclusion on SAMS, this must be resolved by doing the following:

1. Click the button for "Advanced Search – Exclusion" on the home page
2. Click on the radio button for "SSN/TIN Search"
3. Type the individual's "First Name" and "Last Name"
4. Type in the individual's SSN
5. Click on the "Search" button
6. The following message should appear: "The combination of name and SSN/TIN that you provided did not return any results. Either the name is not in SAM, there is no SSN/TIN associated with that name, or the SSN/TIN that you provided did not match our records. You may try a different SSN/TIN, or you may consider searching by name only"
7. Click "Save PDF" button to download and save a copy of the results

FHA Case Number Assignment

An FHA case number is assigned to all FHA-insured loans. Case numbers can only be ordered after the counseling certificate and loan application have been fully executed (signed/dated by all parties to the loan transaction). If the FHA case assignment has expired or is canceled, a new FHA case number will be required.

NOTE: FHA Connection will automatically cancel any uninsured case numbers if there has been no activity for 6 months since the date of the last action.

Actions To Keep Case Number Active

- Initial Case Number assignment
- Appraisal logging
- Appraisal update (1004D)
- Notice of Return

Actions NOT Qualified to Keep Case Number Active

- Update to the borrower(s) name(s) and/or property address
- Updates or edits to appraisal logging
- Obtaining a second appraisal

CAIVRS

The Credit Alert Interactive Voice Response System (CAIVRS) is a federal government database of delinquent federal debtors. If the borrower has a delinquent account, they are not eligible until it is brought current, paid, or otherwise satisfied. I.e., if the borrower is 1) presently delinquent on any federal debt (e.g., a VA-guaranteed mortgage, Title I Loan, federal student loan, Small Business Administration Loan, or delinquent federal taxes); or 2) has a lien, including taxes, placed against their property or debt owed to the U.S. government. CAIVRS data is required to be pulled on all borrowers and NBS.

Underwriting Requirements

- If CAIVRS default is required to be cleared prior to or at closing, then underwriting must have evidence that the CAIVRS default item is brought current.
- If CAIVRS shows an FHA foreclosure, or HUD has paid a claim, the borrower is ineligible for a period of 3 years from the date of the claim. This applies to both HECM refinances and HECM purchase transactions.
- If CAIVRS shows a default status, then the underwriter must contact HUD and verify this information confirming that HUD has not paid a claim. Once it is verified HUD has not paid a claim, underwriting must condition for a clear CAIVRS.

State Commitment Letters

Some states require that lenders issue commitment letters to the borrower. They may or may not include a cooling-off period from the date the borrower executes the commitment letter to when the loan can close.

NOTE: A "business day" is defined as any calendar day except Saturday, Sunday, or a state or federal holiday.

Illinois

- Commitment Letter: A full 3 business day cooling-off period is required from the date of the borrower(s) signature on the IL commitment letter prior to the loan closing.
- The letter must be signed after approval.
- The cooling-off period cannot be waived.

Louisiana

- Commitment Letter: A 7 calendar day cooling-off period is required from the date of the borrower(s) signature on the LA commitment letter and cooling-off disclosure prior to closing.
- The letter must be signed after approval.
- The cooling-off period cannot be waived.

Maryland

Financing Agreement: We must provide the borrower with a lender-executed Financing Agreement within 10 business days after the date the loan application is completed. Our application includes the initial Financing Agreement. The Financing Agreement must include the following:

- The term and principal amount of the loan.
- An explanation of the type of mortgage loan being offered.
- The rate of interest that will apply to the loan and – if the rate is subject to change, is a variable rate, or is subject to final determination at a future date based on some objective standard – a specific statement of those facts.
- The points, if any, to be paid by the borrower.
- The term during which the Financing Agreement remains in effect.

Since the terms in the Financing Agreement are subject to change or determination after its execution, the lender shall provide the borrower with a lender-executed Financing Agreement or a Commitment Letter at least 72 hours before the closing date.

Minnesota

- Commitment Letter: A 7 calendar day cooling-off period is required from the date of the borrower(s) signature on the MN commitment letter prior to closing.
- The letter must be signed after approval.
- The cooling-off period cannot be waived.

Utah

- Commitment Letter: A 7 calendar day cooling-off period is required AFTER the date of the borrower(s) signature on the UT commitment letter prior to closing.
- The letter must be signed after approval.
- The cooling-off period of 7 days starts the day AFTER the commitment letter is signed. The loan cannot close during that 7-day period.

Signature Requirements including Electronic Signatures

Borrowers are required to sign and date many loan documents, examples of which include: Application documents, closing documents, letters of explanation, purchase contracts, and others.

Signatures oftentimes can either be live signatures or electronic signatures (E-sign). The following documents require live signatures, while electronic signatures (e-sign) are not permissible:

- Loan closing documents
- Any document requiring notarization
- Conservator/guardianship documents
- SSA-89 form
- Power of attorney
- Trust documents

Electronic signatures (E-sign) are acceptable and most often used with application documents, counseling certificates, and letters of explanations. Presently, Cornerstone Home Lending will only accept electronic signatures that were completed using its approved e-sign vendor, DocuSign.

The e-sign audit log (often known as the Certificate of

Completion) and the e-sign consent disclosure must be provided and must document the following:

- The consent of the borrower(s)
- Date and time stamp of the signature
- The name and IP address of the borrower(s)
- Evidence the document was electronically signed

The electronic signature (e-sign) technology being used must comply with the ESIGN Act: https://www.govinfo.gov/content/pkg/PLAW- 106publ229/pdf/PLAW-106publ229.pdf

General Document Age

Documents used in the origination and financial assessment of a HECM may not be more than 120 days old at disbursement date , except for appraisals, which are subject to separate validity period requirements.

Documents such as divorce decrees or tax returns, may be more than 120 days old at disbursement date as they are not affected by the passage of time.

Documents Obtained via Internet

Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document. Examples include bank statements showing the borrower(s) name and account number reference, even if truncated.

PROPERTY INSURANCE & FLOOD DETERMINATION

Homeowners Insurance

Hazard insurance is insurance that protects a property owner against damage caused by fires, severe storms, earthquakes, or other natural events. As long as the specific event is covered within the policy, the property owner will receive compensation to cover the cost of any damage incurred.

NOTE: All properties secured by an HECM are required to be adequately covered by homeowners and hazard insurance.

Homeowners Insurance Requirements

- The hazard insurance policy may not limit or exclude from coverage (in whole or part) windstorm, hurricane, hail damage, or any other peril normally included under an extended coverage endorsement.
- Hazard insurance is mandated to protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. The property must be covered by the standard extended coverage endorsement.
- Each borrower has the right to select their own insurance carrier to provide hazard insurance for the subject property, provided the insurance policy and coverage meet lender requirements.

NOTE: DP-3 homeowners insurance policies are not acceptable.

Evidence of Homeowners Insurance

A policy declaration page must be provided to confirm insurance coverage. The policy declaration page must include the following for review:

- Coverage amount for Dwelling (also known as Coverage A). Adequate coverage can be determined if Dwelling Coverage A, including Extended Replacement Cost, meets or exceeds the following:
  - › The appraised value minus the site value
  - › Total estimated new cost as listed on the appraisal
  - › Guaranteed Replacement Cost coverage will be deemed adequate coverage

  NOTE: Replacement Cost Estimators (RCE) from the insurance company can be reviewed when the dwelling coverage is not meeting the above coverage requirements. To meet RCE requirements, the RCE must be dated within 1 year, square footage must be within 100 sq. feet of the appraisal, demo and debris must be removed, and it must match the specifics of the appraisal (room count, central HVAC, foundation, etc.).
- The deductible amount cannot exceed 5%
- All borrowers on the loan must be listed on the declaration page.
  - › NBS or other parties are not required to be on the declaration page, but may be listed.
  - › Deceased parties must be removed.
- The subject property's address
- Effective date and expiration date
  - › Effective date must be no later than the closing date.
  - › If the expiration date is within 60 days of closing, the premium for the policy renewal will be required and the premium will be collected at closing.
- Evidence of payment: Hazard insurance premiums must be prepaid for a minimum of 90 days past closing. Premiums will be paid at closing according to the following:
  - › Existing policies with NO LESA: 90 days of premium must be collected if not already paid. If renewal falls within 60 days, the full annual premium will be collected.
  - › Existing policies with a FULL or PARTIAL LESA: Any balance due on the current policy AND the full year's renewal premium, if due within 60 days of closing.

When the actual renewal rate is not available, the premium must be calculated at 1.04 of the prior year's premium amount.

- New policies: The full annual premium
- Loss Payee/Mortgage Clause: Effective with all loans closed or purchased:
  - › Cornerstone Home Lending, a Division of Cornerstone Capital Bank, SSB. Cornerstone Capital Bank, SSB. Member FDIC. NMLS ID# 2258.
  - › 1177 South Loop West, Suite 700 | Houston, Texas 77027

  NOTE: Binders are not acceptable. If a new insurance policy is purchased prior to closing, then closing will require the full year's premium.

Flood Determination & Insurance

NOTE: Flood certificates must be ordered for all loans.

Flood Certificates

- A complete Standard Flood Hazard Determination Form (FEMA Form 81-93 or 086-0-32) is required for all loans. The certification must be provided by a reputable vendor.
- The certification must be for the life of the loan. The certificate will not expire.

- A special flood hazard has one of the following designations: A, AO, AH, A1-30, AE, A99, VO or V1-30, VE or V. Only properties within these zones require flood insurance.

NOTE: Flood certificates must be ordered for all loans. Properties within zones B, C, and X DO NOT require flood insurance

Properties in a Flood Zone

- The borrower(s) must have or must obtain NFIP flood insurance to continue with the reverse mortgage.
- The document called "Notice to a borrower in a Special Flood Zone" (attached to the flood certificate) must be signed and dated by the borrower a minimum of 10 days prior to the closing. New construction (under 1 year old) properties are NOT eligible.

The following properties ARE NOT ELIGIBLE for FHA insurance and cannot proceed:

- Properties where insurance under the National Flood Insurance Program (NFIP) is not available
- Properties located in a Coastal Barrier Resource System (CBRS), including any related structures/ improvements in addition to the residential dwelling
- New construction properties in a flood zone with a Certificate of Occupancy issued 12 months ago or less

Flood Determination & Insurance

Flood insurance is required if any part of the principal structure is located within a SFHA. Detached buildings (e.g., stand-alone garages, sheds, or National Forest Inventory (NFI) greenhouses) are not considered part of the principal structure, although flood insurance will be required if buildings are included in the appraised value.

Flood insurance generally should be in the form of the standard policy issued under the National Flood Insurance Program (NFIP). Policies that meet NFIP requirements (i.e., those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's Write Your Own program) are allowed. Private flood insurance is acceptable so long as the policy meets the flood insurance requirements for FHA loans and flood insurance under the NFIP is also available.

Evidence of Flood Insurance

To confirm insurance coverage, a policy declaration page must be provided. The policy declaration page must include the following:

- Flood insurance coverage amount: Lesser of the following and not to exceed $250,000 (NFIP)
  - › Maximum claim amount or total estimate of new cost
- Deductible amount: Maximum deductible is $5,000
- All borrowers on the loan must be listed on the declaration page
  - › NBS or other parties are not required to be on the declaration page, but they may be listed
  - › Deceased parties must be removed
- Effective date and expiration date
  - › Effective date must be no later than the closing date
  - › If the expiration date is within 90 days of closing, the premium for the policy renewal will be collected at closing
- Evidence of payment: Flood insurance premiums must be pre-paid for a minimum of 90 days past closing; premiums will be paid at closing according to the following:
  - › Existing policies with NO LESA: 90 days of premiums must be collected if not already paid; if the renewal falls within 90 days, the full annual premium will be collected in addition to any remaining balance
  - › Existing policies with a FULL or PARTIAL LESA: Any balance due on the current policy AND the full year's renewal premium if due within 90 days of closing

NOTE: When the actual renewal rate is not available, the premium must be calculated at 1.04 of the prior year's premium amount.

- Loss Payee/Mortgagee Clause:
  - › Cornerstone Home Lending, a Division of Cornerstone Capital Bank, SSB. Cornerstone Capital Bank, SSB. Member FDIC. NMLS ID# 2258.
  - › 1177 South Loop West, Suite 700 | Houston, Texas 77027

  NOTE: Binders are not acceptable. Flood insurance premiums must be paid upfront outside of closing and insurance policies must be effective at closing. Flood insurance premiums cannot be collected and paid out at the time of escrow and force placed insurance is not acceptable.

CONDOMINIUM & PUD PROPERTY INSURANCE

Hazard Insurance Requirements

When a reverse mortgage is secured by a unit in a PUD or condominium project and the legal documents for the project allow for blanket insurance policies to cover either the common elements or both the individual units and the common elements, we require verification that the HOA is maintaining a master or blanket policy that provides the premiums to be paid as a common expense.

The insurance policy must at least protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar projects, including those covered by the standard at risk endorsement.

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units.

An insurance policy that includes either of the following endorsements ensures full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement under which the insurer agrees to replace the insurable property regardless of the cost and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement, which waives the requirements for coinsurance.

  OR

A Replacement Cost Endorsement under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more, and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement which waives the requirement for coinsurance.

Evidence of Hazard Insurance

A copy of the master or blanket policy and certificate or evidence of insurance must show the following information:

- Reference to the master or blanket policy
- Reference to our subject property address and unit
- Name of the insured: The name of the project's HOA
- A provision for at least a 10-day notice prior to cancellation due to non-payment

NOTE: When the actual renewal rate is not available, the premium must be calculated at 1.04 of the prior year's premium amount.

- Any endorsement that is a part of the policy
- borrower's name
- Insuring agent's signature (may be stamped)
- Coverage:
  - Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units, AND
  - Liability coverage ≥ $1 million, AND
  - Fidelity Bond Coverage: If a condo project with more than 20 units, the HOA must have fidelity bond coverage (aka Crime Policy or Employee Dishonesty). Coverage must be no less than a sum equal to three months aggregate assessments on all units unless the state law mandates a maximum dollar amount. The coverage must cover all employees, directors and officers of the association and persons responsible for funds administered by the association.
- Walls-In Coverage: If the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to ensure improvements that the borrower may have made to the unit, the borrower must obtain a walls-in coverage (HO-6) policy equal to a minimum of 20% of the appraised value of the unit.
- Loss Payee/Mortgagee Clause:
  - Cornerstone Home Lending, a Division of Cornerstone Capital Bank, SSB.
    Cornerstone Capital Bank, SSB. Member FDIC. NMLS ID# 2258.
  - 1177 South Loop West, Suite 700 | Houston, Texas 77027

FLOOD INSURANCE REQUIREMENTS

Condominiums

The condominium association must have flood insurance in place for buildings in the condominium project that are located within Special Flood Hazard Areas (SFHA) including "A" or "V" zones, which are determined by the Federal Emergency Management Agency (FEMA).

The condominium association must have flood insurance under the National Flood Insurance Program (NFIP) for all Units in buildings that are located in an SFHA.

- Master condo policy covering 100% of the insurable value (total replacement cost) of the building (including amounts to replace/repair the foundation and its supporting structures) and common areas

  OR

- Master policy covering the total number of units in the condominium multiplied by $250,000
- Condo projects must have a master flood policy; individual unit or owner coverage is not acceptable

PUDS

- The amount of flood insurance coverage for PUD project common elements should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate NFIP.
- Requirements for the individual PUD unit are the same as for other one-unit properties.

Evidence of Flood Insurance

A copy of the master or blanket policy and certificate or evidence of insurance must show the following information:

- Reference to the master or blanket policy
- Reference to our subject property address and unit
- Name of the insured: The name of the project's HOA
- A provision for at least a 10-day notice prior to cancellation due to non-payment
- Any endorsement that is a part of the policy
- borrower's name
- Insuring agent's signature (may be stamped)
- Evidence that the policy is paid through the required minimum policy term is also required unless the premium is paid at loan closing
- Loss Payee/Mortgagee Clause:
  - Cornerstone Home Lending, a Division of Cornerstone Capital Bank, SSB.
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FINANCIAL ASSESSMENT ANALYSIS

(i) Financial Assessment

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

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

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

Financial Assessment Results

When determining the need for a LESA and if the HECM represents a sustainable solution for the financial circumstances of the borrower, underwriting will evaluate whether the borrower passes the Financial Assessment which includes satisfactory credit history, satisfactory property charge history and meeting residual income requirements (factoring in extenuating circumstances and compensating factors).

Financial Assessment includes the evaluation of the following three areas: Credit history, property charge history and residual income.

- If the borrower has demonstrated willingness and capability to meet financial obligations and residual income, a LESA is not required.
- If the borrower has not shown willingness and/or capability to meet financial obligations and residual income, a LESA is required.

Credit History: After considering applicable extenuating circumstances if the borrower's credit is not considered to be satisfactory, a fully funded LESA must be required for HECM approval.

Property Charge History: If the borrower's property charge history is not satisfactory after considering extenuating circumstances, a fully funded LESA will be required for HECM approval.

Residual Income: If the borrower's residual income is not sufficient to meet the borrower's needs (after considering applicable compensating factors):

- A partially funded LESA is required if the amount of such is less than 75% of the Projected Life Expectancy Property Charge Cost (unless the borrower requests a fully funded LESA).

  OR

- A fully funded LESA is required if the amount of the partially funded LESA is greater than 75% of the Projected Life Expectancy Property Charge Cost.
  - › The impact of the fully funded LESA or partially funded LESA on the borrower's residual income will also be considered. See section on Residual Income.

Life Expectancy Set-Aside (LESA)

A Life Expectancy Set Aside (LESA) is an amount of funds withheld from the HECM proceeds to be used for payment of property taxes, homeowners insurance and flood insurance, if applicable, over the course of the borrower's life while residing in the subject property. The need, funding amount and structure of the LESA are based on the financial assessment of the borrower.

Projected Life Expectancy Property Charges

- The Projected Life Expectancy Property Charge Cost is required for all HECMs.
- The formula for calculating such includes the projected sum of:
  - › Current property taxes
  - › Homeowners insurance premiums
  - › Flood insurance premiums
- A factor to reflect increases in tax and insurance rates
- The HECM expected average mortgage interest rate
- The life expectancy of the youngest borrower (with age rounded up)

Fully funded Life Expectancy Set-Aside

If the underwriter has determined that the borrower has not demonstrated willingness to meet all financial obligations and/or residual income requirements, the LESA must be fully funded.

- The lender will use the fully funded LESA to pay property taxes and insurance premiums on behalf of the borrower.
- The borrower will remain responsible for maintaining all other costs associated with the property's maintenance.
- If a fully funded LESA is required or voluntarily requested by the borrower, the required set-aside amount equals the Projected Life Expectancy Charge Cost.

Partially Funded Life Expectancy Set Aside

A partially funded LESA can only be used when the borrower meets the credit history and property charge history requirements but does not meet the residual income requirements.

- The lender will distribute semi-annual payments to the borrower to assist in paying property taxes and insurance premiums.
- The partially funded set-aside cannot be greater than 75% of the Projected Life Expectancy Property Charge Cost, otherwise, a fully funded set-aside will be required.
- The amount of the semi-annual payments is based on the monthly residual income shortfall.
- The borrower is responsible for paying all property taxes and insurance premiums.

Mandatory Obligations

Mandatory obligations for HECM transactions include the following:

- Initial MIP
- Loan origination fee
- HECM counseling fee
- Reasonable and customary amounts but not more than the amount actually paid by the mortgagee for any of the following items:
  - › Recording fees and recording taxes, or other charges incident to the recordation of the insured mortgage;
  - › Credit report;
  - › Survey, if required by the mortgagee or mortgagor;
  - › Title examination;
  - › Mortgagee's title insurance;
  - › Fees paid to an appraiser for the initial appraisal of the property
- Repair set-asides;
- Repair administration fee;
- Delinquent federal debt;
- Amounts required to discharge any existing liens on the property;

- Customary fees and charges for warranties, inspections, surveys, engineer certifications, real estate purchase contracts;
- Funds to pay contractors who performed repairs as a condition of closing, in accordance with standard FHA requirements for repairs required by appraiser;
- The total amount of property tax and flood and hazard insurance charges scheduled for payment during the first 12-month disbursement period from a fully-funded LESA;
- The total amount of semi-annual disbursements scheduled to be made during the first 12-month disbursement period to the borrower from a partially funded LESA;
- Property tax, flood, and hazard insurance payments required by the mortgagee to be paid at loan closing;
- For a purchase transaction, the amount of the principal that is advanced towards the purchase price of the subject property

(ii) Credit & Expense Analysis

Credit Report Requirements

A tri-merged credit report is required and must include a public record check for all borrowers. The credit report expires after 120 days and must be good through funding.

The lender must either obtain a tri-merged credit report (TRMCR) or a Residential Mortgage Credit Report (RMCR) from an independent consumer reporting agency.

In order to pull credit, the following information is required:

- Borrower's name
- Borrower's present address
- Borrower's Social Security Number (SSN)
- Borrower's date of birth (DOB)

The credit report must include all the following:

- Name of the lender/broker ordering the report
- Name, address, and telephone number of the consumer-reporting agency
- Borrower's name, address, SSN, and DOB; and
- Primary repository from which any information was pulled, for each account listed
- Residence history
- AKAs/name variances
- A scan of the Office of Foreign Assets Control (OFAC) records
- All inquiries made within the last 90 days
- All credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years regarding:
  - Bankruptcies
  - Judgments
  - Lawsuits
  - Foreclosures
  - Tax liens; and
- For each borrower debt listed, the:
  - Date the account was opened
  - High credit amount
  - Required monthly payment amount
  - Unpaid balance, and
  - Payment history

Credit Report

- The lender must obtain a joint credit report for the following individuals:
  - Married co-borrowers
- The lender must obtain an individual credit report for the following individuals:
  - Each unmarried borrower who will be obligated on the mortgage note
  - NBS or other non-borrowing household member(s) only in instances where their income will be used as a compensating factor or to reduce family size when calculating residual income

Credit Report Corrections

The following provides guidance as to when a new credit report must be pulled:

- Borrower's last name is incorrect
- Social Security Number is incorrect

The following provides guidance as to when a credit report does not need to be re-pulled:

- borrower's middle name and/or generation (i.e., Jr. Sr. I, IV) is not listed on the credit report.
- A variation of the borrower's first name (i.e., Robert, AKA Bob)
- Subject property does not list the following:
  - Type of street (Ave., Dr., etc.)
  - Directional (NW, S, E)
  - Address variation can be used if no alert reflected on report (Ex. 123 W Main St vs. 123 Main St West, etc.)
- Date of birth variation is acceptable as long as there are no credit alerts reported and documentation validating accurate date of birth is in the loan file

CREDIT REPORT ITEMS TO BE ADDRESSED

Fraud Alert

- If there is a fraud alert on the credit report, a lender certification will be required as evidence in the file to confirm the borrower applied for a reverse mortgage.

Frozen Credit/Security Freeze

- Borrower(s) have the right to place a "security freeze" on their credit history which prohibits the credit reporting agency from releasing the borrower's credit history. This freeze can be placed with any or all 3 of the credit bureaus. When a credit freeze is in place, the following steps must be followed:
  - Borrower needs to contact the credit agency and provide their authorization to release the credit history either temporarily or permanently.
  - The processor receives notification that the freeze has been lifted from the loan officer/ borrower and will pull a new tri-merge credit report.
  - The underwriter cannot issue a credit approval until a tri-merge credit report that includes history from all agencies is received and reviewed.

Multiple Social Security Numbers

- If the credit report shows multiple Social Security numbers, either the borrower's written clarification or other documentation within the file can be used to address the multiple social security numbers (unless there are other warning signs for consideration).

Other Addresses

- Any recent address reporting on the credit report that is not the subject property will need to be addressed by the underwriter. See Occupancy Requirements for more information.

Credit Report Reflects Deceased Status for Borrower

- If the credit report shows one credit bureau reporting the borrower's status as deceased, direct verification of the error from the Social Security Administration is required.

Mortgages

- All outstanding mortgages must be paid off at closing.
  - Mortgages on non-subject properties do not need to be paid off if the borrower has documentation the mortgage is not attached to the subject property.
  - If the borrower owns multiple properties, the file must contain copies of the mortgage statements. See Occupancy/ Title Seasoning Requirements for additional information.

Credit Inquiries

- Any inquiries within 90 days of the application date require a LOE from the borrower stating whether any new accounts were opened as a result of the inquiry. If an inquiry resulted in a new account, we must obtain:
  - Recent account statement reflecting the monthly payment amount (The monthly payment must be included in the expense analysis)

Satisfactory Credit Conditions

The lender may consider the borrower to have satisfactory credit if:

- All housing and installment debt payments have been made on time for the previous 12 months (0 x 30) and no more than two (2) 30-day late (2 x 30) mortgage payments or installments in the previous 24-months; and
- No major derogatory credit appears on revolving accounts in the previous 12 months.
  - Major derogatory credit on revolving accounts includes any payments made more than 90 days (1 x 90) after the due date, or three or more payments more than 60 days (3 x 60) after the due date.

NOTE: Revolving and installment accounts must be analyzed to determine if they went into collections or charge off in the past 24 months. Any account that has entered into a collection or charge off status is considered to be at a minimum of 120 days late (1X120).

Credit Requiring Additional Analysis

- If a borrower's credit history does not reflect satisfactory credit as stated above, the borrower's payment history requires additional analysis.
- If the borrower has not demonstrated the willingness to meet their financial obligations as stated above and no extenuating circumstances can be documented, the lender must at a minimum require a fully funded Life Expectancy Set-Aside (LESA).

- The borrower's delinquent accounts must be analyzed to determine whether late payments were due to a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. Any explanation or documentation of the delinquent accounts must be consistent with other information in the file.
- Even if a fully funded LESA is required, lenders must still determine if the borrower's credit history provides reasonable assurance the borrower can effectively manage financial obligations (even if real estate taxes and insurance are paid directly through the LESA).

General Liabilities and Debts

- Determine the borrower's monthly liabilities by reviewing all debts listed on the credit report, Part VI of URLA or equivalent, tax returns, bank statements and pay stubs.
- Borrower must document reasons for exclusion of any debt listed on the above.
- Include all monthly liabilities in the expense analysis.
- Installment debts do not have to be included if such will be paid off within 10 months and the cumulative payments of all debts are less than or equal to 5 percent of the borrower's gross monthly income.
- The borrower may not pay down the balance in order to meet the 10-month requirement.
- Accounts for which the borrower is an authorized user must be included in an expense analysis unless the borrower can document that the primary account holder has made all required payments for the previous 12 months. If fewer than three payments are required on the account, the payment amount must be included in the borrower's expenses.
- Negative income must be subtracted from the borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.
- Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, and these funds are not included in calculating the borrower's assets, do not require consideration in the analysis.

TYPES OF CREDIT ACCOUNTS

Payment History on Housing Obligations

The borrower's principal housing obligation payment history will be determined by:

- The credit report and credit supplement, if required.
- Verification of rent received directly from the landlord (for landlords with no identity-of-interest with the borrower)
- Verification of mortgage received from the mortgage servicer
- Review of canceled checks covering the most recent 12-month period

The last 12 months' housing history for the borrower's principal residence must be verified and documented through closing. A credit supplement will be required to cover the mortgage payment history from the date of last activity on the credit report through the month prior to closing.

Undisclosed Debts and Inquiries

If a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, the lender must:

- Document the actual monthly payment amount with the current statement
- Include the payment amount in the expense analysis
- Obtain a written explanation from the borrower for all inquiries shown on the credit report that were made in the last 90 days.

Installment Loans

These are loans (excluding student loans) not secured by real estate that require the periodic payments of principal and interest. A loan secured by an interest in a timeshare must be considered an installment loan.

- The lender must include the monthly payment shown on the credit report, loan agreement, or payment statement in the expense analysis.
- If the credit report does not include a monthly payment for the loan, use the amount of the monthly payment shown in the loan agreement or the amount on the payment statement.
- Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the borrower's gross monthly income. The borrower may not pay down the balance in order to meet the 10-month requirement.

Revolving Charge Accounts

A credit arrangement which requires the borrower to make periodic payments but does not require full repayment by a specified time.

- The monthly payment shown on the credit report for the revolving charge account must be included in the expense analysis
- If the credit report does not include a monthly payment for the account, the payment shown on the current account statement or 5 percent of the outstanding balance must be used
- The credit report will be used to document the terms, balance and payment amount on the account, if available

30-Day Accounts

A credit arrangement that requires the borrower to make periodic payments but does not require full repayment by a specific time.

- Verify the borrower pays the outstanding balance in full on every 30-day account each month for the last 12 months as verified by the credit report.
- If the credit report reflects any late payments, then 5 percent of the outstanding balance of the borrower's monthly debt will be included in the expense analysis.
- If sufficient funds in excess of any funds required to close the HECM are available to pay off the balance, then no further documentation is required.

Authorized User Accounts

Any account for which the borrower is an authorized user must be included in the expense analysis, unless the borrower can document that another party is making payments on the account. (See Contingent Liabilities for documentation requirements.)

Contingent Liabilities

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

Monthly payments on contingent liabilities must be included in the expense analysis unless it can be verified there is no possibility the debt holder will pursue debt collection against the borrower should the other party default or if the other party has made 12 months of consecutive, timely payments. Calculation of monthly obligation on the contingent liability is based on the terms of the agreement creating the liability.

- Mortgage Assumptions: A copy of the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the borrower's name must be acquired.
- Cosigned Liabilities: If the cosigned liability is not included in the monthly obligation, documentation must be obtained evidencing that the other party to the debt has made regular, on-time payments during the previous 12 months and does not have a history of delinquent payments on the loan.
- Court Ordered Divorce Decree: A copy of the divorce decree ordering the spouse to make payments must be obtained in order to exclude the payment.

Student Loans

These are liabilities incurred for educational purposes. All student loans must be included in the expense analysis regardless of payment type or status of payments (active or deferred).

A student loan payment obligation will be calculated one of three ways:

- The greater of:
  - .50 percent of the outstanding balance on the loan
  - The monthly payment reported on the borrower's credit report if reasonable

    OR
  - The actual documented payment, provided the payment will fully amortize the loan over its term

Deferred Obligations

Liabilities (other than student loans) that have been incurred though payment has been deferred or has not yet started, including accounts in forbearance.

Deferred obligations must be included in the expense analysis.

- Obtain written documentation of the liability deferral from the creditor and evidence of the outstanding balance and terms.
- Obtain evidence of the anticipated monthly payment obligation, if available.
- The actual monthly payment to be paid on the deferred liability must be used.
- If the actual monthly payment is not available for the installment debt, utilize 5 percent of the outstanding balance to establish the monthly payment.

Collection Accounts

A collection account is a borrower's loan or debt that has been submitted to a collection agency through a creditor. The lender must determine if the collection accounts were the result of:

- The borrower's disregard for financial obligations
- The borrower's inability to manage debt

  OR
- Extenuating circumstances

The lender must document reasons for approving a borrower for an HECM when the borrower has collection accounts.

- The borrower must provide a letter of explanation supported by documentation for each outstanding collection account. The explanation and documentation must be consistent with other credit information in the file.
- Collections with a total aggregate amount less than $2,000 need not be used in the residual calculation.

Charge-Off Accounts

A charge-off account is a borrower's loan or debt that has been written off by the creditor as reflected on the credit report. The lender must determine if the charge-off accounts were the result of:

- The borrower's disregard for financial obligations
- The borrower's inability to manage debt

  OR
- Extenuating circumstances

The lender must document reasons for approving a borrower for an HECM when the borrower has charge-off accounts.

- The borrower must provide a letter of explanation for any charge-off account. The explanation and documentation must be consistent with other credit information in the file
- Charge-off accounts are not included in the expense analysis.

Disputed Derogatory Credit Accounts

Disputed derogatory credit account refers to disputed charge-off accounts, disputed collection account(s), and disputed accounts with late payments in the last 24 months.

The lender must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the financial assessment.

- The following items need not be considered by the lender:
  - Disputed medical accounts
  - Disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use provided the lender includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.

If the credit report indicates the borrower is disputing derogatory credit accounts, the borrower must provide a letter of explanation and documentation supporting the basis of the dispute.

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

- If the borrower has $1,000 or more collectively in disputed derogatory credit accounts, the lender must include a monthly payment in the expense analysis.

The following items are excluded from the expense analysis:

- Disputed medical accounts

  AND

- Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

Non-Derogatory Disputed Accounts and Disputed Not Indicated on the Credit Report

Non-derogatory disputed accounts include the following types of accounts:

- Disputed accounts with zero balance
- Disputed accounts with late payments aged 24 months or greater
- Disputed accounts that are current and paid as agreed

If a borrower is disputing non-derogatory accounts or is disputing accounts that are not indicated on the credit report as being disputed, the lender must analyze the effect of the disputed accounts in the expense analysis.

Business Debt in borrower's Name

Business debt in borrower's name refers to liabilities reported on the borrower's personal credit report, but payment for the debt is attributed to the borrower's business.

If business debt is reported on the borrower's personal credit report, the debt must be included in the expense analysis, unless the borrower can document the debt is being paid by the borrower's business and the debt was considered in the cash-flow analysis of the borrower's business.

This can be documented with one of the following:

- 12 months of canceled checks (front and back) showing the debt is paid through a business account

  OR

- 12 months of business bank statements showing the debt is paid through a business account

Consumer Credit Counseling and Debt Settlement Agreements

Consumer credit counseling is a financial service designed to educate consumers about how to pay off their debts and how to avoid debt in the future. Credit counseling may involve analysis of a consumer's financial situation, evaluation of debt reduction strategies for paying off or managing debt, and education about money management.

Debt settlement programs typically are offered by for-profit companies, and involve the company negotiating with creditors to allow borrowers to pay a "settlement" to resolve their debt. The settlement is another word for a lump sum that's less than the full amount owed.

The following documentation will be required for any borrower in a credit counseling or debt settlement program:

- Evidence that the borrower did not have derogatory credit before entering into the program OR extenuating circumstance that lead to the enrollment in the program
- Evidence of a valid payment agreement with the credit counselor or settlement company
- List detailing the schedule of creditors
- Evidence of timely payments for the duration of the agreement; a minimum of 3 months is required

The monthly payment amount on the agreement will be used in lieu of the amounts reported on the credit report unless the borrower has not made timely payments.

Judgments

Judgment refers to any debt or monetary liability of the borrower created by a court, or other adjudicating body. The lender must verify that court-ordered judgments are resolved or paid off prior to or at closing.

Regardless of the outstanding judgment amounts, the lender must determine if the judgment was a result of:

- The borrower's disregard for financial obligations
- The borrower's inability to manage debt, OR
- Extenuating circumstances

A judgment is considered resolved if the borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the borrower has made timely payments for at least three months of scheduled payments, and the judgment will not supersede the HECM mortgage liens.

- If a judgment is not attached to the property, it is not a mandatory obligation and cannot be paid off with HECM proceeds.
- If the judgment is reflected on the credit report (not on the title), then evidence showing a minimum 3-month history of timely payments and a copy of the agreement or evidence of payment in full prior to closing the loan are required (HECM proceeds cannot be used unless it is a lien secured on title).
  - › The payment amount must be included in the borrower's expenses when calculating residual income.
- If the judgment is attached to the subject property, payoff will be required through escrow and is a mandatory obligation.

Federal Debt

Any debt owed to the federal government, whether non-tax or tax debt.

Non-Delinquent Federal Debt

- Debt owed to the federal government for which regular payments are being made.
- The amount of the required payment must be included in the expense analysis.

Documentation from the federal agency evidencing a repayment agreement and verification of payments made (if applicable) is required.

Delinquent Federal Non-Tax Debt

- Lenders are prohibited from processing an application for an FHA-insured mortgage for borrowers with delinquent non-tax debt including deficiency judgments, student loans, SBA loans, and other debt associated with past FHA-insured mortgages.
- Processing the application of a borrower with delinquent non-tax debt cannot continue until the debt has been resolved with the creditor agency. Resolving the debt includes a repayment agreement or payoff. Lenders are required to determine whether a borrower has had delinquent federal non-tax debt; such information can be obtained from public records, credit reports or the equivalent.
- All borrowers must be checked against the Credit Alert Verification Reporting System (CAIVRS).
- If a delinquent federal debt is reflected in a public record, credit report (or equivalent), or CAIVRS or an equivalent reporting system, the underwriter must verify the validity and delinquency status of the debt by contacting the creditor agency to which the debt is owed. If the debt was identified through CAIVRS, the lender must contact the credit agency using the contact number and the debt reference number reflected in the CAIVRS report. If the credit agency confirms the debt to be valid, then the borrower is ineligible for an FHA-insured mortgage until the debt is resolved through the creditor agency.
- A borrower may not be found ineligible solely on the basis of CAIVRS information that has not been verified. In fact, the loan may continue to be processed if it is determined CAIVRS is no longer valid or that resolution to the debt has been met.
- In order for a borrower with verified delinquent federal debt to become eligible, the borrower must resolve their federal non-tax debt.
- The credit agency can verify the debt has been resolved. Documentation from the creditor agency to support the verification and resolution of the debt must be obtained. For debt reported through CAIVRS, evidence of resolution can be verified by obtaining a clear (updated) CAIVRS report.
- Delinquent federal non-tax debt may be considered a mandatory obligation and may be paid off at HECM closing using HECM proceeds.

Delinquent Federal Tax Debt

Public records and credit information will be checked to verify the borrower is not currently delinquent on any federal debt and does not have a tax lien placed against their property for a debt owed to the federal government.

Borrowers with delinquent federal tax debt are ineligible. Application processing will be suspended until the debt has been resolved with the creditor agency, unless the debt is resolved. A delinquent federal non-tax debt must be resolved in any one of the following ways:

- Document the debt has been satisfied
- Paid through the HECM as a mandatory obligation
- Document the borrower has entered into a valid repayment agreement with a minimum of three (3) months of payments made

State Tax Liens

Lenders must check public records and credit information to verify that the borrower is not presently delinquent on any state debt and does not have a tax lien placed against their property for a debt owed to the state government. A delinquent state tax debt must be resolved in any one of the following ways:

- If the state lien is against the subject property, then it must be paid at closing.

  NOTE: The lien may not be added to title for the purposes of making it a mandatory obligation.

DELINQUENT MORTGAGES/SHORT SALES/FORECLOSURES

Delinquent Mortgages

In all cases where there is a delinquent mortgage on the principal residence, whether FHA-insured or not, the underwriter must evaluate the circumstances leading to the delinquency and determine whether the HECM pay-off represents a sustainable solution to the issues that caused the delinquency.

Unless an extenuating circumstance exists, a LESA will be required. FHA-insured mortgages that are delinquent are subject to the following guidelines:

- Subject Property: If the borrower is currently delinquent on an FHA-insured mortgage on their principal residence, and the HECM will pay off the delinquent mortgage, the mortgagor may be eligible provided they meet all other HECM requirements.
- Investment Property/Second Home: If the borrower is delinquent on an FHA-insured mortgage on an investment property or second home, the borrower is not eligible for an HECM until the delinquency has been resolved.

Short Sales/Foreclosures

NOTE: A property is considered in foreclosure when three consecutive months have passed without payment. The following applies to HECM Refinance loans only.

For foreclosure/short sale guidelines on HECM for Purchase loans, see HECM for Purchase section.

- Foreclosure pending against the subject property:
  - The mortgage must be paid off in a short period of time.
  - Determine the deadline for the lien pay-off in order to stop foreclosure.
  - Foreclosure payoffs include additional fees and charge for processing, attorney fees and other. Such must be accounted for when estimating the payoff amount.
  - If a family member or any third party acquires property via deed and the existing mortgage was in foreclosure status, it would be ineligible, as it will be considered a bailout transaction, except in cases of death.
  - If at any time during the loan process title is transferred out of the borrower's name due to the foreclosure, verification that the borrower has been added back to title prior to closing is required.
  - A LESA will be required.

- History of Foreclosure:
  - › Government Loans (FHA, VA) – If the borrower had a foreclosure on an FHA/VA-insured loan within the last 3 years from the case assignment date, the borrower is ineligible for HECM financing.
  - › Conventional Loans – Any foreclosure in the past 24 months without extenuating circumstances will require a LESA. The borrower must provide a detailed letter of explanation and disposition of the property.
- Short Sales:
  - › When a previously owned property was sold for less than what was owed (short sale), borrowers are considered eligible for an FHA insured mortgage if, as of the loan application date, all mortgage and installment debt payments were made within the month due for the twelve months preceding the short sale.
  - › Borrowers that were in default at the time of the short sale (or pre-foreclosure sale) are not eligible for three years from the date of the sale.
    - Lenders may make exceptions for borrowers in default at the time of short sale if:
      - › The default was due to circumstances beyond the borrower's control (such as death of a primary wage earner, long term uninsured illness, etc.); and
      - › The credit report reflects satisfactory credit prior to the circumstances (beyond the borrower's control) that caused the default.

Bankruptcy

Bankruptcy is a serious derogatory credit issue that lenders must consider during the credit history assessment. Absent extenuating circumstances, a bankruptcy must be viewed as a significant event that calls into question the ability of the borrower to manage all financial obligations.

NOTE: The following is for HECM refinances only. For bankruptcy guidelines on HECM for Purchase, see the HECM for Purchase section.

Chapter 7 Bankruptcy

- Chapter 7 bankruptcies must be discharged or dismissed prior to closing in order to proceed with an HECM.
- If the credit report or title report reflects the date the bankruptcy was dismissed or discharged, then no additional documentation is required.
- If an FHA-insured mortgage was included in the bankruptcy, then the borrower is not eligible for an HECM for 3 years from the date of discharge.

A full LESA may be required unless documented extenuating circumstances exist.

Chapter 13 Bankruptcy

If the chapter 13 bankruptcy has been discharged, it will not affect the reverse mortgage process. A full LESA may be required depending on time-frame and payment history of the Chapter 13.

- If the chapter 13 has not been discharged, then the borrower has two options:
  - › Option 1: Court Approval
    The borrower may continue with the HECM with the chapter 13 still in repayment if the following is met:
    - The borrower must obtain written permission from the court, signed by a judge. The court approval must meet the following guidelines:
      - › The approval must specifically approve the HECM mortgage.
      - › The approval must state the loan is a negative amortization loan.
      - › The approval must not state a specific interest rate.
    - Letter from trustee to include all debts included in the chapter 13 and amount of approved monthly payment plan.
    - Payment history from trustee to verify no derogatory payments. If derogatory payments are reflected a LESA will be required.
    - Must be able to qualify with monthly bankruptcy payment included in liabilities.
    - Any liens against the property or federal debts that are included in the Bankruptcy must be paid at closing.
  - › Option 2: Bankruptcy Payoff
    The borrower may pay off the remaining balance of the chapter 13 with the HECM proceeds. In order to do so the following is required:
    - A payoff letter from the trustee
    - Payment history on the chapter 13 verifying timely payment has been made since the inception of the bankruptcy. If derogatory payments are reflected a LESA may be required.

Alimony, Child Support and Maintenance Debt

- Alimony: Verify and include the monthly obligation in the calculation of the borrower's debt.
- Child Support and Maintenance: These are considered recurring liabilities and the monthly obligations must be included in the expense analysis.
- Obtain the official divorce decree, separation agreement, maintenance agreement, or other legal order.
- Obtain the borrower's pay stubs covering no less than 28 consecutive days to verify if the borrower is subject to any garnishment relative to alimony, child support or other maintenance.
- The borrower's monthly obligation will be calculated from the greater of:
  - › The obligation shown on the most recent decree or agreement establishing the borrower's payment

    OR
  - › The monthly amount of the garnishment

Federal and State Income Taxes

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

(iii) Property Charge History Analysis

Overview

A financial analysis of the borrower's property charge payment history will be made to determine if the borrower has demonstrated a willingness to meet their financial obligations in a timely manner. Unless there are documented extenuating circumstances, late property charge payments are of particular concern and must be viewed as significant events that call into question the borrower's ability to manage their financial obligations.

Definition of Property Charges

Property charges include all the following:

- Property Taxes
  - › If a taxing authority has waived or exempted the borrower of payment of such (with no taxes due and payable, do not accrue or result in liens against the property), then such taxes can be excluded from the financial assessment.
  - › If a taxing authority has deferred the payment of property taxes (liability remains but payment is deferred until a certain point in the future), such taxes may be excluded from the financial assessment provided:
    - The deferral period is in place until the death of the borrower or the sale of the property.
    - A lien senior to the HECM first and second mortgages will not be created upon the termination of the deferral period.
    - The borrower does not participate in a real estate tax deferral program or allow any liens to be recorded against the property unless such liens are subordinate to the insured mortgage.
- Homeowners/hazard insurance and flood insurance
- Homeowners association (HOA), condominium, and planned unit development (PUD) fees
- Ground rents; and
- Other assessments levied by municipalities or under state law

PROPERTY CHARGE HISTORY DOCUMENTATION

Property Taxes

- 24-month history on ALL properties owned, including a previous principal residence that was sold within the last 24 months.
  - › Documentation can include written statements or online printout from the taxing authority, copies of bills and canceled checks, tax certification from a title company or third-party tax verification vendor
  - › Must include the due date, date paid, and amount paid

Hazard/Flood Insurance

- Must verify that hazard/flood insurance has been in place for the past 12 months for the subject property.
- Documentation can include the current and previous policy declaration pages or the current declaration page and a statement from the agent of when the original insurance policy was placed. Payment history is not required.
  - › For investment properties/second homes: Mortgage statement evidencing that insurance premiums are escrowed or the declaration page of the current policy which includes the amount of the premium

HOA Dues

- 24-month history on ALL properties owned, including a previous principal residence that was sold within the last 24 months.
- Documentation can include a written statement from the association or its management agent, billing history, canceled checks.
  - › Must include payment frequency (annual, semi-annual, etc.), due dates, date paid, and amount paid

    OR
  - › Payment frequency, amount, and a written and signed statement from the association or management that all dues are paid current and there have been no late payments within the last 24 months

Satisfactory Property Charge Payment History

- Satisfactory property charge history at the time of loan application means:
  - › Property taxes for all owned real estate are current and there are no property taxes in arrears in the prior 24 months. Payment will be considered late when a late fee is assessed and/or interest is being accrued.
  - › HOA, condominium, or PUD fees for all owner real estate are current and there are no arrears in the prior 24 months. Payment will be considered late if paid 30 days or more after the due date.

› Homeowners and hazard insurance (including flood, if applicable) are current in the recent 12 months.

› Verification of satisfactory payment history in the past 12 months, to show no lates. This could include monthly, quarterly or annually depending on how the borrower paid their homeowners insurance.

  - Borrowers may be required to provide a LOE.
  - A LESA may be required.

- The reason for any late payments must be determined and documented.
- If the borrower owns any additional real estate or has changed their principal residence within the 24 months prior to application, then property charge history for the current principal residence and any prior principal residence or other property owned/occupied (totaling 24 months) must be verified.
- If homeowners/hazard insurance and flood insurance (where applicable) were not in place for the borrower's primary residence for the previous 12 months, the borrower must obtain coverage and prepay for 12 months at or before closing.
- All HOA, condominium, or PUD fees for all owner real estate are current and there are no arrears in the prior 24 months.
- The reason for any late payments must be determined and documented.
- If the borrower does not own any additional real estate and has changed their principal residence within the 24 months prior to application, then property charge history for the current principal residence and any prior principal residence (totaling 24 months) must be reviewed.
- If homeowners/hazard insurance and flood insurance (where applicable) were not in place for the borrower's primary residence for the previous 12 months, the borrower must obtain coverage and prepay for 12 months at or before closing.
- Even when a fully funded LESA is required, lenders must determine if the mortgagor's property charge payment history provides reasonable assurance of the borrower's capability to effectively manage financial obligations.

Maintenance & Utility Charges

The formula established by the Department of Veterans Affairs may be used to estimate maintenance and utilities for all states.

- To do so, multiply the living area of the property (square feet) by $0.14
- Use the figure for square feet from the Improvements section on page 1 of the appraisal "Square Feet of Gross Living Area Above Grade"

Property Charge Payment History Requiring Further Analysis

- Further analysis is required if a borrower's property charge history is not satisfactory.
- It is important to determine if late payments and/or assessment of late fees or penalties were based on disregard for financial obligation, an inability to manage debt, or extenuating circumstances. The findings of this analysis must be documented and placed in the mortgage file. Such documentation must be consistent with other information in the file.
- Where the borrower has not demonstrated a willingness to meet their financial obligations, and no Extenuating Circumstances can be documented, a fully funded LESA will be required.
- Even where a Fully funded LESA is required, lenders must determine if the mortgagor's property charge payment history provides reasonable assurance of the borrower's capability to effectively manage financial obligations.

Extenuating Circumstances

Where the borrower's credit and/or property charge payment history does not meet requirements, the lender must consider extenuating circumstances that led to the credit/financial issues. Extenuating circumstances beyond the borrower's control may include, but are not limited to:

- Loss of income due to the death of or divorce from a spouse that directly resulted in late payment of obligations.
- Loss of income due to the borrower's or spouse's unemployment, reduced work hours or furloughs, or emergency medical treatment or hospitalization that directly resulted in late payments of obligations.
- Increase in financial obligations due to emergency medical treatment or hospitalization for the borrower or spouse, emergency property repairs not covered by homeowners or flood insurance, divorce, or other causes that directly resulted in late payments of obligations.

Lenders must document the presence of any extenuating circumstances as part of the financial assessment. Documentation of extenuating circumstances must demonstrate:

- The connection between the specific occurrence(s) and the measurable impact of the occurrence(s) on the borrower's finances.
- That no other actions taken by the borrower contributed to the derogatory incident(s) (e.g. assuming new financial obligations, voluntarily terminating employment or reducing hours, etc.).
- The likelihood that these circumstances will not recur. In assessing the likelihood that the circumstances will not recur, lenders may consider the impact of the HECM on the borrower's circumstances through the elimination of financial obligations and/or through an increase in the borrower's income.
- The borrower demonstrates financial liquidity through non-HECM assets, additional sources of income, access to revolving credit, or other factors that are not present that enhance their ability to endure financial challenges.

(iv) Borrower Income

General Income Requirements

Effective income refers to income that may be used in the calculation of residual income. Effective income must be likely to continue at least the first three years of the mortgage.

- The following must be verified to meet income requirements:

› The borrower's income employment history

› Accuracy of the amounts of the income reported

› If the income can be considered effective income

› Income legally derived and properly reported on the borrower's tax returns

› Negative income must be subtracted from the borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted

› Non-taxable income may not be grossed up

Income from an Eligible Non-Borrowing Spouse (NBS)

- An eligible NBS may voluntarily provide information on their income and such may be used in one of two ways:
  - › As a compensating factor (See Compensating Factors section)
  - › To reduce the family size by one
- To use as either a compensating factor or to reduce family size by one, the eligible NBS's income must meet the same documentation and verification standards as the borrower's income
- Non-taxable income may not be grossed up and imputed income from dissipated assets may not be included, unless it is a jointly held asset with the borrower

Income from Non-Borrowing Household Members

- Defined as a person who occupies the property to be secured with the HECM who is not the spouse of the borrower and/or is not an additional borrower.
- Other non-borrowing household members may voluntarily provide information on their income and may be used to reduce family size.
- To be used to reduce family size, the other non-borrowing household member's income must meet the same documentation and verification standards as required for the borrower's income.
- Non-taxable income may not be grossed up and imputed income from dissipated assets may not be included.

Non-Taxable Income

- Non-taxable income is income not subject to federal taxes which includes but is not limited to:
  - › Some portion of Social Security income
  - › Some federal government employee retirement income
  - › Railroad retirement benefits
  - › Some state government retirement income
  - › Certain types of disability and public assistance payments
  - › Child support
  - › Military allowances
  - › Other income documented as exempt from federal income taxes.

  NOTE: Because the cash flow analysis will consider federal taxes, any non-taxable income may not be grossed up.

Employment-Related Income

Refers to income received as an employee of a business that is reported on an IRS W-2 and may be used as effective income in accordance with the standards provided for each type of employment income.

For all employment-related income, verify the borrower's most recent two years of employment and income documentation using one of the following methods:

Traditional Current Employment Documentation

- Obtain the most recent pay stubs covering a minimum of 30 consecutive days showing the borrower's year-to-date earnings and one of the following:
  - › A written verification of employment (VOE) covering two years

    OR
  - › An electronic verification acceptable to FHA (i.e., work number)

Re-verification of employment must be completed within 10 days prior to mortgage disbursement. Verbal re-verification of em- ployment is acceptable.

Alternative Current Employment Documentation

All the following must be obtained:

- Copies of the pay stubs covering the most recent 30 consecutive day period showing the borrower's year-to-date earnings
- Copies of the original IRS W-2 forms from the previous two years
- Current employment documentation via telephone; signed and dated. Noting the name, title and telephone number of the person who verified employment.

NOTE: Re-verification of employment must be completed within 10 days prior to mortgage disbursement. Verbal re-verification of employment is acceptable.

Past Employment Documentation

Direct verification of the borrower's employment history is not required if all of the following are met:

- The current employer confirms a two-year employment history, or a pay stub reflects a hiring date.
- Only base pay is used in calculating effective income (no overtime or bonus income).
- The borrower executes a 4506C for the previous two tax years.

If the borrower has not been employed with the same employer for the previous two years and/or not all conditions above can be met, the lender must obtain one or a combination of the following for the most recent two years to verify the borrower's employment history:

- W-2s
- VOEs
- Electronic verification as acceptable to FHA

  OR

- Evidence supporting enrollment in school or the military

Calculation of Effective Income

- For employees who are salaried and whose income has been and will likely be consistently earned, the current salaried is used to calculate effective income.
- For employees who are paid hourly and whose hours do not vary, the borrower's current hourly rate is used to calculate income.
- For employees who are paid hourly and whose hours vary, an income average covering the past two years is used to calculate income.
- If the borrower can document an increase in pay rate covering the last 12 months, an average of hours at the current rate may be used.

Part-Time Income Calculation

Refers to employment that is not the borrower's primary employment and is performed less than 40 hours per week.

- Part-time employment may be used as effective income if the borrower has worked uninterrupted for the past two years and the current position is likely to continue.
- Income calculation is averaged over the previous two years.
- If the borrower can document an increase in pay rate covering the last 12 months, an average of hours at the current rate may be used.

Overtime and Bonus Income

Refers to overtime and bonus income the borrower receives in addition to their normal salary. This income can be counted as effective income if the borrower has received such over the past two years and such is reasonably expected to continue.

- Calculation of overtime and bonus income is based on an average of over the previous two years.
- If the overtime or bonus income from the current year shows a decrease of 20% or more from the previous year, the current year's income figures will be used.

Seasonal Income Definition and Calculation

Refers to employment that is not year-round, regardless of the number of hours the borrower works per week while on the job.

- May be considered effective income if the borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season.
- To calculate effective income from seasonal employment, average the income earned over the previous two full years.
- Unemployment income may be considered effective income for those in seasonal employment.
- Documentation of the unemployment income is required and there must be reasonable assurance such income will continue.

Employer Housing Subsidy

Refers to employer provided housing assistance. These funds can be used as effective income and can be added to the total effective income.

- Verify and document the following:
  - Actual existence of subsidy
  - Amount of the subsidy
  - Likelihood subsidy is to continue

Family-Owned Business Income

Refers to income from a business that's owned by the borrower's family but the borrower is not an owner. Income may be verified with traditional or alternative documentation.

- Verify the borrower is not an owner by accessing official business documents showing ownership percentages.
- Official documents can include: Corporate resolutions
  - Business organizational documents
  - Business tax returns or Schedule K-1
  - An official letter from a CPA on their business letterhead
  - Additional documentation for the file must include copies of signed personal tax returns or transcripts

Commission Income Definition and Calculation

Refers to income paid contingent upon performance.

- Can be considered effective income if earned by the borrower for at least two years in the same or similar line of work and such income is expected to continue.
- The average net commission income earned over the previous two years will be used.
- Effective income must be reduced by the amount of any unreimbursed employee business expenses.
- Tax returns for the previous 2 years must be obtained.

Self-Employment Income

Refers to income generated by a business in which the borrower has at least a 25% interest.

NOTE: Temporary guidelines effective for all case numbers assigned on or before June 30, 2021: The company will verify the existence of the borrower's business within 10 calendar days prior to the date of the Note to confirm that the borrower's business is open and operating.

One of the following will be needed to verify and confirm that the business is open and operating:

- Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment)
- Evidence of current business receipts within 10 days of the note date (payment for services performed)
- Lender certification that the business is open and operating (lender confirmed through a phone call or other means) OR
- Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled)
- The four basic types of business structures include:
    - Sole Proprietorships
    - Corporations
    - Limited Liability or S Corporations
    - Partnerships
- Self-employment income can be considered effective income if the borrower has been self-employed at least two years.
- If the borrower has been self-employed for 1-2 years, self-employment income can only be considered effective if the borrower was previously employed in the same line of work in which the borrower is presently self-employed or has been employed in a related occupation for at least two years.
- Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If income from businesses declines by 20% during over the analysis period, there must be documentation showing stabilized business income, such as a P&L statement.
- If a borrower can document the reduction in income was the result of an extenuating circumstance and can also document a stable or increasing income over a 12-month period of time, then such income will be considered stable (effective income).
- Required documentation for self-employed income:
    - The average net commission income earned over the previous two years will be used.
    - Completed and signed federal individual and business income tax returns (including all schedules) must be obtained.
    - In lieu of signed returns from the borrower, IRS Form 4506, IRS Form 4506-T, and/or tax transcripts directly from the IRS will suffice.
    - A year-to-date P&L statement and balance sheet if more than a calendar quarter has elapsed since the last filing (will be used for support only).

    NOTE: A balance sheet is not required for self-employed borrowers filing Schedule C income. Income from P&L cannot be used unless audited by a CPA. borrowers must obtain a business credit report for all corporations.

Frequent Changes in Employment

- If the borrower has changed employers more than three (3) times in the previous 12-month period, additional steps to verify and document the income stability will be necessary. Such additional steps are not necessary if the borrower works in a field that requires the borrower to work in various fields such as temp companies or union trades.
- The following transcripts must be obtained:
    - Transcripts of training and education demonstrating qualifications for a new position
    - Employment documentation showing continual increases in income and/or benefits

Employment Gaps

- If the borrower has had six months or more of a gap in employment, current income may be considered effective income if both the following can be verified:
    - Employment verification in the current job for at least six months at the time the case number is assigned
    - A two-year work history prior to the absence from employment using standard or alternative employment verification

Temporary Reductions in Income

A borrower's current income may be considered effective income in situations wherein the borrower has experienced a temporary reduction of income due to short-term disability or similar temporary leave if it can be documented that the borrower:

- Intends to return to work
- Has the right to return to work
- Meets applicable income standards (taking into account any reduction of income due to the circumstance)

The borrower must provide the following documentation regarding the temporary leave:

- A written statement confirming the intent to return to work and the intended return date
- A letter from the current employer confirming the borrower's eligibility to return to current employer following leave
- Documentation of sufficient liquid assets to supplement income through the temporary leave period

    NOTE: The borrower(s) must return to work prior to when the loan closes.

Disability Benefits

Refers to benefits from the SSA, Department of Veterans Affairs (VA), or private disability insurance provider. The borrower's receipt of disability benefits must be verified and documented.

- Disability set to expire three years from date of mortgage application cannot be counted as effective income
- Disability that does not have a noted expiration date on the Notice of Award (or equivalent document) can be considered effective income because it's likely to continue beyond 3 years
- Pending or current reevaluation of medical eligibility cannot be relied upon as evidence the benefit payment will continue

    NOTE: Do not inquire into or request documentation concerning the nature of the disability or the medical condition of the borrower.

Social Security Disability Benefits

For Social Security disability income, including supplemental security income (SSI), a copy of the last Notice of Award letter (or equivalent), must be obtained showing established award benefits to the borrower, and one of the following:

- Federal tax returns
- Most recent bank statement showing receipt of income from the SSA
- Proof of Income letter, (aka Benefits Letter or Budget Letter) from the SSA
- Copy of the borrower's form SSA-1099

Veterans AFFAIRS (VA) Disability Benefits

For VA disability benefits, a copy the veteran's most recent Benefits Letter showing the amount of the assistance must be obtained and one of the following documents:

- Federal tax returns

  OR

- The most recent bank statements showing receipt of income from the SSA.

Private Disability Benefits

For private disability benefits, documentation must be obtained from the provider showing the amount of the assistance and expiration date of the benefits, as well as one of the following documents:

- Federal tax returns

  OR

- The most recent bank statement evidencing receipt of income from the provider

Calculating Disability Income

- The most recent amount of benefits received is used to calculate effective income.

Alimony, Child Support, Maintenance Income

Refers to income received from a former spouse or partner or from a non-custodial parent of the borrower's minor children.

- A fully executed copy of the final divorce decree, legal separation agreement, court order, or voluntary payment agreement and documented receipt of such must be obtained.
- When using the above-named documents, evidence of receipt of income must be acquired using deposits on bank statements, canceled checks or documentation from the child support agency for the most recent three months.
- A voluntary payment agreement must be verified with 12 months of canceled checks, deposit slips or tax returns.
- The income must be documented to continue for at least three years. The front and pertinent pages of the divorce decree/settlement and/or court order showing financial details may be used.
- Final Divorce Decree, Legal Separation Agreement, Court Order: The current payment can be used to calculate effective income if the borrower has received consistent payments for the most recent three months.
- Voluntary Payments: The current payment can use used to calculate effective income if the borrower has received consistent payments for the most recent six months.

  NOTE: If the borrower has not received consistent payment for six months, an average income received over the previous two years will be used to calculate effective income. If alimony, child support, and maintenance income have been received for less than two years, effective income is average over the time of receipt (not to be less than 3 months).

Military Income

Refers to current amount of income received by military personnel during active, Reserve, or National Guard service including:

  - Base pay
  - Basic allowance for housing
  - Clothing allowances
  - Flight or hazard pay
  - Basic allowance for subsistence
  - Proficiency pay

- A copy of the borrower's military leave and earnings statement (LES) must be obtained.
- Verify the expiration term of service date on the LES.
- If the expiration is within the first 12 months of the mortgage, military income may only be considered effective income if the borrower represents an intent to continue military service.
- The current amount of military income received is used to calculate effective income.

  NOTE: Education benefits may not be used as effective income.

Other Public Assistance Defined and Calculation

Refers to income received from the government assistance programs.

Income received from government agencies must be verified and documented.

- If income from a government agency is set to expire within three years of mortgage application, it cannot be counted as effective income.
- If documentation does not indicate an expiration date, it may be considered effective income and likely to continue.
- The current rate of public assistance received will be used to calculate effective income.

Automobile Allowances Definition and Calculation

Refers to funds provided by the borrower's employer for automobile expenses.

- Verify and document automobile allowance as received from the employer over the last two years.
- An IRS Form 2106 for the previous two years must also be obtained.
- To calculate the portion of the allowance that can be considered effective income:
  - › Subtract automobile expenses as shown on IRS Form 2106 from the automobile allowance prior to calculating effective income based on the current amount of the allowance received.
  - › If the standard per-mile rate in calculating automobile expenses is used instead of the actual cost method, the portion the IRS considers depreciation may be added back to income.
  - › Expenses that must be treated as recurring debt include:
    - The borrower's monthly car payment
    - Any loss resulting from the calculation of the difference between actual expenditure and the expense account allowance

RETIREMENT INCOME

Social Security Retirement Income

Refers to income received from the Social Security Administration other than disability income.

Verify and document the borrower's receipt of income from the SSA that is likely to continue for at least a three-year period from the date of case number assignment.

Receipt of income AND proof of continuance needs to be documented. Receipt of income can be documented with any one of the following:

- Federal tax returns
- Most recent bank statement (with the borrower's name) or direct deposit evidencing receipt of income from the SSA
- Recent Benefits Letter direct from SSA
- Copy for the borrower's SSA Form 1099/1042S for most recent tax year

Proof of continuance can only be documented with:

- The last Notice of Award letter which states the SSA's determination on the borrower's eligibility for SSA income
- If any SSA income is due to expire within three years of case number assignment, that income may not be used in calculating residual income
- If the award letter or equivalent document specifies a future start date for receipt of income, such income will only be considered effective if expected to begin within 60 days of the mortgage closing
- The current amount of the SSI income will be used to calculate effective income

Pension Income

Refers to income received from the borrower's former employer(s).

Verify and document the borrower's receipt of periodic payments from the borrower's pension and that the payments are likely to continue for at least the next three years by obtaining one of the following documents:

- Federal tax returns
- Most recent bank statement evidencing receipt of income from former employer(s)
- Copy of borrower's pension/retirement letter from the former employer(s)

If the federal government, including the VA, is the source of the pension, consider the income effective and likely to continue. In these instances, there is no need to request additional documentation from the borrower to demonstrate continuance of federal government pension income.

Individual Retirement Account and 401(k) Income

Refers to income received from an IRA or 401(k).

Verify and document the borrower's receipt of recurring IRA/401(k) distribution income and that it is likely to continue for at least three years.

- Obtain the most recent IRA/401(k) statement and any one of the following documents:
  - › Federal tax returns
  - › Most recent bank statement evidencing receipt of income from an account
- The current amount of income consistently received by the borrower from the IRA/401(k) Account will be used to calculate the effective income.
- For borrowers with fluctuating IRA/401(k) income, the average of income received over the previous two years will be used to calculate effective income.
- If the income has been received for less than 2 years, an average of the income received over the time of receipt will be used.

RENTAL INCOME

Rental Income from Subject Property

Rental income refers to income received or to be received from the subject property or other real estate holdings. Rental income may be considered from existing and prospective renters. No income from commercial space may be included in rental income calculations.

DOCUMENATION REQUIREMENTS:

LIMITED OR NO HISTORY OF RENTAL INCOME

- 2-4 Unit

  Appraisal of subject property must be completed on form 1025 (Small Residential Income Property Appraisal Report) to show the fair market rent. Prospective leases to be provided, if applicable.
- 1 Unit with or without an Accessory Dwelling Unit (ADU)

  Appraisal of the subject property must include form 1007 (Single Family Comparable Rent Schedule) to show the fair market rent. Prospective leases to be provided, if applicable.

History of Rental Income

If there is a history of rental income from the property since the previous tax filing, verification and documentation of the existing rental income must be obtained by procuring all of the following:

- The current lease
- Rental history over the past 24 months (free of unexplained gaps greater than three months as explained by student, seasonal, or military renters, or by property rehab)
- The borrower's most recent tax returns including Schedule E, from the previous two years

For properties with less than two years of rental income history, document the date of acquisition by providing the deed, closing disclosure, or other legal document. Rental income from the lease may only be used if the property was acquired since the last tax filing.

Calculating the Rental Income from Subject Property

The net subject property rental income must be added to the borrower's gross income.

Limited or No History of Rental Income

When the borrower does not have effective income from the subject property since the previous tax filing, calculate the effective income from the subject property by using the lesser of:

- The monthly operating income report on Fannie Mae Form 216/Freddie Mac Form 998

  OR
- 75% of the lesser of:
  - › Fair market rent reported by the appraiser

    OR
  - › The rent reflected in the lease or other rental agreement

History of Rental Income

- Calculate the income by averaging the amount shown on Schedule E
- Depreciation, mortgage interest, taxes, insurance, and any HOA dues shown on Schedule E may be added back to the net income or loss
- If the property has been owned for less than two years, annualize the rental income for the length of time the property has been owned

Rental Income: Other Real Estate Holdings

Rental income from other real estate holdings may be considered effective income if the documentation requirements listed below are met.

If the borrower is vacating the property from which the rental income is derived, it must be to relocate to an area more than 100 miles from the current principal residence.

- The borrower must obtain a lease agreement of at least one year after the mortgage is closed.
- Evidence of the payment of the security deposit and first month's rent.

Limited or No History of Rental Income

Where there is no history of rental income since the previous tax filing, including property being vacated by the borrower, an appraisal depicting market rent and documentation the borrower has at least 25% equity in the property must be obtained. NOTE: An FHA roster appraiser is not required to complete the appraisal.

- Two to Four Units: Verify and document the proposed rental income by obtaining an appraisal showing fair market rent (Fannie Mae Form 72) and the prospective leases if available
- One Unit: Verify and document the proposed rental by obtaining Fannie Mae Form 1004/Freddie Mac Form 70, Fannie Mae Form 1007/Freddie Mac Form 1000, and Fannie Mae Form 216/Freddie Mac Form 998 showing fair market rent and if available the prospective lease

History of Rental Income

Obtain the borrower's last two years of tax returns with Schedule E.

CALCULATING RENTAL INCOME FROM OTHER REAL ESTATE HOLDINGS

Limited or No History of Rental Income

Calculate the effective net rental income from other real estate holdings where the borrower does not have a history of rental income since the previous tax filing by deducting the principal, interest, taxes, and insurance payment (PITI) from 75% of the lesser of:

- Fair market rent reported on Fannie Mae Form 216/Freddie Mac Form 998
- The rent reflected in the lease or other rental agreement

History of Rental Income:

Calculate the income by averaging the amount shown on Schedule E.

Depreciation, mortgage interest, taxes, insurance, and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the property has been owned for less than two years, annualize the rental income for the length of time the property has been owned.

Positive net rental income must be added to the mortgagor's effective income. Negative net rental income must be included as a debt/liability.

Income from Boarders of the Subject Property

Boarder refers to an individual renting space inside the borrower's home.

Rental income is only considered acceptable if the borrower has a two-year history of receiving income from boarders as shown on the tax return and if the borrower is currently receiving boarder income.

- Obtain two years of the borrower's tax returns evidencing income from boarders
- Obtain a copy of the current lease

Calculating Rental Income from Boarders

- Calculate the effective income by using the lesser of the two-year average or current lease.

  NOTE: For HECM for Purchase transactions, obtain a copy of the executed written agreement documenting their intent to continue boarding with the borrower.

Investment Income

Investment Income refers to interest and dividend income received from the assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

Verify and document the borrower's investment income by obtaining tax returns for the previous two returns for the previous two years and the most recent account statement to reflect asset still adequate to generate income.

Calculate Dividend/ Interest Income

Calculate investment income by using the lesser of:

- The average investment income earned over the previous two years as reported on the taxes OR
- The average investment income earned over the previous one year

If the asset account will be depleted for closing, then the interest/dividend income is not usable.

Capital Gains and Losses

Capital gains refers to a profit from the sale or transfer of the capital asset, such as stock, bond, or real estate, whereby the amount realized in the sale exceeds than the purchase price.

Capitall loss refers to a loss from the sale or transfer of a capital asset, such as stock, bond, or real estate, whereby the amount realized on the disposition exceeds the purchase price.

Capital gains or losses must be considered when determining effective income if the individual has a constant turnover of assets resulting in gains or losses.

Three years of tax returns are required to evaluate an earnings trend. If the trend:

- Results in a gain, it may be added as effective income

  OR

- Consistently shows loss, it must be deducted from the total income.

Expected Income

Expected income refers to income from cost-of-living adjustments, performance raises, a new job or retirement that has not been, but will be received within 60 days of mortgage closing.

Consider expected income as effective income except when expected income is to be delivered from a family-owned business.

Verify and document the existence and amount of expected income with the employer in writing and that such income is expected to begin with 60 days of the mortgage closing. Expected retirement income including Social Security may be used if it is to begin within 60 days of the mortgage closing.

Calculating Expected Income

- Expected income is calculated in accordance with the standards for the type of income being received.
- Verify the borrower will have sufficient income or liquid assets to meet all financial obligations between the mortgage closing until the beginning of the receipt of the income.

Trust Account Income

Trust account income refers to income regularly distributed to a borrower from a trust.

- Verify and document the existence of the trust agreement or other trustee statement
- Verify and document the frequency, duration and amount of the distribution by obtaining a bank statement or transaction history from the bank
- Verify and document regular payments will continue for at least the first three years of the mortgage.

Calculate effective income utilizing the income amount based on the terms and conditions of the trust agreement.

Annuities or Similar Income

Refers to income distributed to a borrower from annuities or similar income.

- Verify and document the legal agreement establishing the annuity and guaranteeing the annuity for the first three years of the mortgage.
- Obtain a bank statement or transaction history as evidence of receipt from the annuity.

Calculate the effective income by using the current rate of the annuity.

Subtract any of the assets used for the required cash investment for an HECM for Purchase or if the borrower is otherwise required to bring cash to closing, subtract from their liquid assets prior to calculating any annuity income.

Notes Receivable Income

Refers to income received by the borrower as a payee or holder in due course of a promissory note or similar credit instrument.

- Verify and document the existence of the note.
- Verify and document payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips, or canceled checks.

Verify the payments are guaranteed to continue for the first three years of the mortgage.

Use the current rate of income to calculate the effective income. If the rate of income fluctuates, use the average of the notes receivable income over the previous year to calculate effective income.

Government Assistance Non-Cash Benefits

Non-cash benefits being received by the borrower through federal, state, or local government programs (e.g. Supplemental Nutritional Program, energy assistance, etc.) may be counted as income. To determine whether such benefits may be counted:

- Verify the benefits are being received at the time of application or that an award letter has been issued and that such benefits will begin to be received within 60 days. If the borrower intends to apply for such benefits, even if potentially eligible, such cannot be counted as benefits
- Verify benefits are not subject to any stated termination date other than one related to the death of the borrower or the sale of the property
- Verify approval of the HECM will not jeopardize continued eligibility for the benefits (for instance if HECM proceeds might trigger disqualification based on program income or asset requirements.

Some benefit programs may result in reduction of the borrower's expenses rather than increasing their income (they may be charged a lower rate for insurance). In such cases, the reduced amount may be used in calculating expenses and must not be treated as income.

Imputed Income from Asset Dissipation

- Imputed income from dissipation of liquid assets (assets that can be converted within one-year without payment of an IRS penalty) may be used.
- If the asset sources are a checking or savings accounts, certificates of deposits, Roth IRAs, and other assets that are not subject to federal taxes you may count 100% of those amount(s).
- If the asset sources are assets that are subject to federal taxes, you may count 85% of those amount(s).
- Do not count the same asset twice (i.e. as a source of interest income and as imputed income from the dissipation of the asset).
- Subtract any of the assets used for the required cash investment for an HECM for Purchase or where the borrower is otherwise required to bring cash to closing from their liquid assets prior to calculating any imputed income from asset dissipation.
- Divide the total adjusted value of all combined assets by the remaining life expectancy of the youngest borrower (in months) to determine the usable amount. If the youngest borrower's next birthday is less than 183 days after the estimated date of closing, round up the age to the nearest whole year.
- If the asset is jointly held with any other party not obligated to the mortgage, the asset may be counted if the borrower provides documentation, the borrower has full access to that asset.

(v) Residual Income Analysis

Overview

The purpose of the cash flow/residual income analysis is to determine the capability of the borrower to meet their financial obligations.

Income from all sources must be calculated and documented for all borrowers to determine whether the borrower has residual income equal to or exceeding the required amount based on geographic region and family size (see charts below).

Table of Residual Incomes by Region				
Family Size	Northeast	Midwest	South	West
1	$540	$529	$529	$589
2	$906	$886	$866	$998
3	$946	$927	$927	$1,031
4 or more	$1,066	$1,041	$1,041	$1,160

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

- If the borrower's residual income is sufficient based on documentation of one or more specific sources, no further income source documentation will be required.

Residual income is calculated by summing the total monthly income from all sources for the borrower obli- gated on the mortgage and subtracting the total monthly expenses, including property charges and debt, of all the borrowers obligated on the mortgage. The result must be equal or greater than the required residual income for household size.

Determining Household Size

- Count all members of the household without regard to nature of relationship when determining the "family size". Include an eligible non-borrowing spouse and other non-borrowing household members.
- An eligible non-borrowing spouse and/or an other non-borrowing household member can be omitted from family size provided their residual income is equal to or exceeds the income required for a one-person family size for the geographic area in which the property is located.
- Non-borrowing spouse and non-borrowing household member(s) must provide a signed authorization, SSA-89 and 4506-C
- The one-person family size may only be used:
  - › For a borrower where Fannie Mae Form 1009 indicates marital status as single or unmarried.
  - › The borrower is required to file tax returns, the results of a Form 4506-T, or verification of copies of tax returns confirm the borrower files as a single person
  - › OR
  - › For a borrower not required to file tax returns, the property title, credit report or other information supports the marital status claimed by the borrower
  - › AND

For a borrower who identifies as unmarried in the certification regarding marital status.

Residual Income Table

- Determine if monthly residual income demonstrates the financial capacity of borrower/s to meet all financial obligations by selecting the applicable family size and region from the table below.

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

Residual Income Shortfall

Residual income shortfall occurs when income from all sources is insufficient to meet the requirements for residual income, as required, based on geographic region and family size. If a borrower's residual income is less than 100% of the required amount, all applicable compensating factors should be applied to overcome the residual income shortfall.

If after applying compensating factors residual income is anything less than 100% of the required amount, a LESA must be applied. Even when a LESA is applied, the borrowers need to demonstrate that the loan represents a sustainable solution. The loan will be considered a sustainable solution if the following criteria is met:

- Residual income is between 80-99% after applying a full LESA and backing out property charges
- If after applying a full LESA and backing out property charges the residual income is between 70-79%, sustainability must be clearly established and a credit exception must be granted to close the loan. The credit desk will be looking for a combination of the following attributes:
  - Excellent credit payment history
  - Excellent property charge payment history
  - New loan is satisfying a mortgage on the subject property
  - Length of time in current residence
  - Stability of income
  - Additional documented compensating factors (i.e., borrowers are in the process of selling additional properties that will net substantial gain or reduce expenses)

Compensating Factors

NOTE: Where the borrower's residual income does not meet the applicable standard reference the Residual Income Table, the mortgagee may consider compensating factors.

Compensating Factors – Other Sources of Income

Income from the sources described below may be cited as a compensating factor where (a) the borrower's residual income, combined with documented income from one or more of these sources, equals or exceeds the applicable amount for their family size and geographic region on the Residual Income Table and (b) the mortgagee can document that the specific criteria described for the individual compensating factor has been met. One or more of the following four (4) compensating factors may be combined to meet residual income:

- Eligible non-borrowing spouse income
  - Lender has documented residual income from an eligible non-borrowing spouse

    NOTE: When citing this compensating factor, the eligible NBS must sign a 4506C at closing.
- Overtime, seasonal, part-time, or bonus income
  - Lender has documented overtime, bonus, part-time, or seasonal income that the borrower has received for at least six months and it will likely continue
- Expected SSI or pension income
  - The borrower has received an award letter stating that they will begin receiving pension or Social Security income within the next 12 months
- Imputed Income from HECM
  - An increase in monthly income would result from dissipating available HECM proceeds remaining after closing (based on original principal limit less required repair, life expectancy and servicing set-asides and disbursements for mandatory obligations)

    NOTE: If after applying the above four compensating factors the borrower does not meet or exceed 100% of the required residual income, a LESA must be applied.

Compensating Factors – Other Resources

The following four compensating factors may be cited where (a) the borrower's baseline residual income is 80%-99% (cannot use the compensating factors from above to meet) of the applicable amount for their family size and geographic region on the Residual Income Table and (b) the lender can document that the specific criteria described for the individual compensating factor has been met.

These compensating factors may NOT be combined.

- Property Charge Payment History
  The borrower meets all the following:
  - Borrower has paid their own property charges directly for at least the last 24 months (i.e., they were not paid by a lender from an escrow account or by another party) and meets the standard in Payment History of Property Charge section
  - Borrower has made all property charge payments without incurring penalties during the last 24 months; and
  - borrower current income is not less than income during the previous 24 months
- Assets Equal to Life Expectancy Property Charges
  - The borrower has assets (excluding HECM proceeds) equivalent to the anticipated property charge payments for the life expectancy of the borrower that were not dissipated or considered in the residual income calculation
- HECM Sufficient to Pay Off Debts

- HECM proceeds remaining after closing (based on original principal limit less required repair, life expectancy and servicing set-asides 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 or exceed the applicable standard for their family size and geographic region on the Residual Income Table

- Access to Other Credit
  - The borrower has access to revolving credit that provide the borrower with financial liquidity that would enhance the ability to endure a financial hardship. The credit report shows established credit lines, other than their housing payment, in the borrower's name open for at least six months; and
  - The borrower can document that these accounts have been paid off in full monthly for at least the past six months. borrower who has not 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 this criterion. Credit lines not in the borrower's name but for which the borrower is an authorized user do not qualify under this criterion.

    NOTE: If after applying the above four compensating factors the borrower does not meet or exceed 100% of the required residual income, a LESA must be applied.

Assets

Assets are required for different reasons depending on the mortgage transaction type. Refer to the Imputed Income section from Asset Dissipation for any assets being used to asset dissipation.

Purchase transactions require borrowers to provide a monetary investment which is applied to satisfy the difference between the principal limit and the purchase price of the subject property. Assets requiring verification are used for:

- Earnest money deposit
  - If the amount of the earnest money is to be reflected as a credit on the HUD1, the source of funds is required as evidenced by:
    - A verification of deposit (VOD), along with the most recent bank statement; may be used to verify savings and checking accounts
    - Two most recent, consecutive original bank statement(s), belonging to the borrower, which covers the previous month's balance
    - Bank printouts reflecting URL and/or bank employee certification are allowed, and must:
      - Cover 90 days
      - Reflect account ownership
      - Reflect running balances

- Down payment
- Closing costs
- Funding a LESA

Refinance transactions may require a monetary investment which is applied to satisfy the shortage between the principal limit and the payoff amount of existing liens. Assets requiring verification are used for:

- Short to close
- Closing costs
- Funding a LESA

NOTE: Short to Close: Occasionally, the funds from a reverse mortgage are not sufficient to cover all existing liens against the property. In these cases, the borrower has the option of bringing money to close the loan. However, to ensure the loan is not creating additional debt in connection with the transaction, HUD requires documentation showing no new additional debt was incurred.

Verification of Funds

The source of any funds required to close a transaction must be verified, as follows:

- Verifications are made no earlier than 90 days prior to closing. Any information verified more than 90 days prior to closing must be re-verified through updated, written verifications.

A credible explanation from the borrower and documented proof of the source of funds is required:

- For any account recently opened (within 90 days of verification).
- When either a large single deposit or large balance increase is identified on an asset statement, the underwriter is responsible for determining if the amount is normal and/or customary in comparison to the borrower's overall income stream and savings pattern.

Borrowed Funds

Any funds used in connection with an HECM mortgage, including funds used to pay costs prior to closing, must not be from any secured or unsecured borrowed sources.

Allowable Source of Funds

The monetary investment requirement can be met by using the below funding sources with certain exceptions noted in the Unallowable Funding Sources section.

Savings and Checking Accounts

- The most recent bank statement showing the previous month's ending balance is required. If the previous month's balance is not shown, then provide the most recent two (2) consecutive months.
- If the borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the borrower has full access to and use of the funds.
- All funds to close must be in one liquid account.

Business Bank Account

A business bank account may be an acceptable source of funds under the following circumstances:

- Documentation is provided verifying that the borrower(s) is/are the sole owner of the company.
- Most recent 2 years' filed individual federal tax returns and applicable business returns are documented in the file.
- The lender must perform a business cash flow analysis to confirm that the withdrawal of funds will not have a negative impact on the business.

Real Estate Sales Proceeds

- The net proceeds from an arm's length sale of a currently owned property may be used as an acceptable source of funds.
- A fully executed HUD1 Settlement Statement or Closing Disclosure must be provided as satisfactory evidence of the cash sales proceeds distributed to the borrower.
- Proceeds must be deposited in one liquid account to close and verified to match HUD1 or Closing Disclosure.

Earnest Money Deposit (EMD)

- If the amount of the earnest money deposit to be reflected as a credit on the HUD1 the source of funds will be required.
- Documentation of the funds should be with a copy of the EM check and corresponding complete bank statement to show it cleared.

Stocks and Bonds

- Most recent two (2) consecutive months or quarterly statement provided by the stockbroker or financial institutions managing the portfolio.
- Actual receipt of funds must be provided, and evidence of liquidation included.
- All pages of the statements must be provided and must clearly identify the borrower as the account holder.
- All funds to close must in one liquid account.

Savings Bonds

- A copy of the bond certificate must be provided evidencing the borrower is the owner and the current value of the bonds.
- Actual receipt of funds must be provided, and evidence of liquidation will be required.

IRAs, Thrift Savings Plans, 401(k)s

- Most recent two (2) consecutive months or quarterly statement.
- Account statements must identify the borrower's vested amount and the terms and conditions for fund withdrawals.
- Actual receipt of funds must be provided, and evidence of liquidation included.

Certificate of Deposits

- Most recent two (2) consecutive months of statements.
- Actual receipt of funds must be provided, and evidence of liquidation will be required.

Unallowable Funding Sources and Gap Financing

- The borrower is not permitted to obtain a secured or non-secured loan from another asset (i.e. car, HELOC, investment property or second home or any type of bridge loan or interim financing) to satisfy the monetary investment or closing costs unless those liens will be paid at or before closing.
- FHA prohibits seller contributions (aka seller concessions), the use of loan discount points, interest rate buydowns, closing cost down payment assistance, builder incentives, and gifts.
  - › This includes some customary charges that are normally paid on behalf of the borrower by the seller.

Ineligible Assets for Verification of Funds

- Gift equity
- Gap financing
- Bridge loans
- Charitable funds
- Subordinate liens
- Personal loans
- Cash withdrawals from credit cards, seller concessions, or seller financing
- Loans against a borrower's assets (401k or life insurance)
- Trade equity
- Employer assistance
- Cash saved at home
- Rent credit
- Sweat equity
- Collateralized loans
- Employer's guarantee plans
- Employer's assistance plans
- Disaster relief grants and loans
- Cash accumulated with private savings clubs
- Third-party closing cost assistance
- Builder incentives
- Loan discount points
- Interest rate buydown
- Cash or its equivalent, in whole or in part from the following parties before, during or after the loan closing:
  - › The seller or any other person or entity that financially benefits from the transaction or
  - › Any third party or entity that is reimbursed, directly or indirectly, by any of the parties (seller or any other person or entity that financially benefits from the transaction).

Gift Funds

Gifts refer to the contribution of cash with no expectations of repayment of the funds to the donor by the borrower.

NOTE: Gifts are allowable for funds-to-close and to pay off debts to qualify. Gift funds are NOT permitted to fund a LESA.

Acceptable Sources

Gift funds must be from an acceptable donor which include:

- Relatives
- Borrower's employer or labor union
- Personal friend with a clearly defined relationship and documented interest in the borrower
- Charitable organizations

Unacceptable Sources

Gift funds cannot be from the following entities:

- Any person or entity with an interest in the sale of the property (i.e. seller, real estate agent or broker, builder, or the like)
- Cash on hand or cash saved at home

Required Documentation

- Gift Letter
  A gift letter signed by both the donor and the recipient (borrower) containing the following information:
  - › Dollar amount of the gift
  - › The name of the borrower
  - › Donor's name, address, and telephone number
  - › The donor's relationship to the borrower
  - › A statement that no repayment is required
  - › The letter must include language asserting the funds were not made available to the donor from any person or entity with an interest in the sale of the property
  - › Statement from the donor that the funds were gifted to the borrower to go towards the HECM transaction
- Transfer of Gift Funds Documentation
  - › Gift funds that have verified in the borrower's account:
    - Obtain donor's bank statement showing the withdrawal of the gift funds
    - Obtain evidence of the deposit into the borrower's account
  - › Gift funds that have not been verified in the borrower's account:
    - Obtain the certified check/money order/cashier's check/wire transfer that shows evidence of the payment to the borrower or settlement agent
    - Obtain the donor's bank statement showing evidence of sufficient funds for the amount of the gift.

TITLE AND VESTING

Title Insurance

Each loan file must include a preliminary document showing the status of title, either current or proposed. The preliminary document may take form of a preliminary title report or title binder/commitment.

Title Requirements

The title policy must be written on the 2006 ALTA standard form or the ALTA short form. To the extent permitted by applicable law, title insurance must be issued in an amount at least equal to 100% of the maximum claim amount.

The preliminary title report must include:

- Effective/issue date of the prelim must be within 120 days of closing
- Proposed coverage amount (equal to the maximum claim amount)
- Property address
- Current vesting
- County tax info
- Status of real property taxes
- All liens of record
- Legal description
- Assessor's parcel number
- 24-month chain of title
- Additional relevant information on the property
- For purchase transactions, the current title holder must be the individual(s) shown as the seller on the sales contract.
- For refinance transactions, title must be vested in the borrower's name at the time of application.

Endorsements

The title policy must include the following endorsements when applicable:

- Environmental Protection Liens: ALTA 8.1 endorsement or equivalent
- Creditor's Right: ALTA 21-06 endorsement or equivalent
- Negative Amortization: ALTA 6.2 endorsement or equivalent
- Reverse Mortgage/Line of Credit: ALTA 14.3 endorsement or equivalent
- Inter Vivos Trust: For loans where title to the subject property is held in the name of an inter vivos trust, a reverse mortgage (Trust Mortgage) endorsement is required
- Leasehold Estate: For loans secured by properties subject to a leasehold estate, leasehold lender's endorsement or equivalent is required. The title insurance policy must include, as part of the insured estate, the value of the lessee's leasehold improvements.
- Condominiums: For condominium loans, an ALTA 4 endorsement or equivalent is required.
- PUDs: For PUD loans, ALTA 5 endorsement or equivalent is required
- Manufactured Housing: For manufactured housing loans, ALTA Endorsement 7, 7.1, or 7.2.
  NOTE: These endorsements must be attached to each policy or incorporated within the body of this policy.

Exceptions

The title to the subject property that secures the mortgage must be free and clear of all liens and encumbrances.

- Survey exceptions are not acceptable
  - › A survey will be required unless title can provide an ALTA 9 endorsement or equivalent
  - › If it is not customary in an area to provide a survey and title cannot provide the ALTA 9 endorsement, then the title policy must not list the survey exception
- Examples of acceptable title exceptions are:
  - › Customary easements for public utilities, party walls, driveways, or other purposes
  - › Violations of a restriction based on race, color, or creed

Vesting Requirements

- All borrowers must be vested for a reverse mortgage.
- At least one of the borrowers must be the owner of record at the time of application.
- If the property is not vested in the name of at least one of the borrowers, a new vesting will need to be recorded and an updated title report is required prior to commencing with loan processing.

Adding or Removing Parties from Title

It is the company's policy to never suggest or recommend the removal of a party from title to the subject property. However, non-borrowing parties may choose to be removed from title to allow the other borrower to qualify. In such cases, the title company must approve and provide the final title vesting.

- Any party being added or removed from title must be added/removed at or before closing.

Documents used to add or remove parties from title:

- Warranty/Grant Deed: A grant deed (known in some states as a warranty deed) is used to remove living, non-eligible borrowers from title or to add eligible borrowers to title. They are created by the settlement agent or an attorney and must be approved by the title officer. The draft of the grant deed must be submitted with the file for underwriting approval.
- Affidavit of Death (or equivalent): An affidavit of death is used to remove deceased owners from title. In addition, the following requirements must be met:
  - › Title will require a certified or original copy of the death certificate in order to issue the affidavit of death or remove a deceased party from title
  - › A copy of the death certificate must be included in the file
  - › The final vesting must be listed on the affidavit or it must be provided by the title company in writing
  - › The title insurer must confirm in writing that the deceased party may be removed from title during the closing process without a probate of the estate

Ineligible Title Vesting

- Entities such as limited partnerships, real estate syndications, or corporations are not eligible.
- Property vesting subject to probate is ineligible. Probate must be resolved and completed with the owner of record identified in vesting.

Title Seasoning

Title seasoning is the length of time the borrower has owned the property and is based on the recorded date of the deed that vests the title of the subject property to the borrower. There is no minimum time frame that a borrower must be vested on title before applying for a reverse mortgage. If there has been a transfer of ownership within the past 12 months, a letter of explanation and additional documentation may be required for a recent transfer.

An acceptable reason for the recent transfer of ownership can include, but is not limited to, the following:

- Recent Purchase Transaction: If the borrower purchased the property less than 12 months from the time of application from someone to whom they are not related, we will require:
  - › The settlement statement from the purchase of the property
  - › Proof of funds at closing, such as a cashier's check or wire transfer
  - › Any unexplained increases in value from the time of purchase may require further documentation.

PROPERTY HELD IN A TRUST/TRUST REQUIREMENTS

- If the property is currently in a trust, the trust must meet specific requirements in order to close the reverse mortgage as the property is currently vested. If the trust does not meet these requirements, the loan cannot proceed, unless the borrower agrees to remove the property from the trust.
- If the property is in a trust and the borrower prefers that the property remain vested in the trust, the trust documents must be reviewed and approved by both the title company and our attorney. As long as the documents meet all the necessary criteria, the trust will be approved and the title company will issue a Trust Mortgagor Endorsement or written acceptance letter, and the loan will close in the trust. See section on Trusts for detailed requirements.

TRUST REQUIREMENTS

ELIGIBILITY

- Must be established by a natural person(s) during the lifetime of the individuals creating the trust, to be effective during the creator's lifetime. Testamentary trusts are not acceptable.borrower/s is/are the sole and primary beneficiary of the trust for their lifetime.
- All primary beneficiaries must be eligible HECM borrowers. Contingent beneficiaries that receive no benefit from the trust and have no control over the trust assets during the primary beneficiary's lifetime, do not need to be eligible HECM borrowers.
- The borrower(s) must have the right to encumber the property.
- The trust must not include any language that would prohibit the lender or HUD from carrying out the requirements or terms of the loan.
- Trust cannot limit or restrict the borrower's interest to or legal right to occupy subject property. If trust splits upon death of beneficiary/ trustee, an original beneficiary must have full control and benefits. Be sure to obtain all trusts if multiple trusts.
- Trust with a POA (Power of Attorney): If a borrower is incompetent, an attorney in fact (POA) is required to sign on behalf of the borrower. However, a POA may not sign the mortgage, note, security instrument, or any other mortgage documents on behalf of a trustee, even though such authority may be granted by the trust document and/or a POA. The trust must allow for the use of POA (see checklist) and may have additional requirements, such as more than a single doctor's verification of incompetence.
- Revocable and irrevocable trusts are allowed; however, irrevocable trusts must be approved by our company's attorney prior to application.
- The state of Texas does not allow HECM loans to close in a trust.

REQUIREMENTS

- Complete signed and notarized copy of the Trust Agreement with all amendments and schedules provided.
- Living wills, medical directives and other estate planning documents are not required.

  NOTE: California law allows a Certification of Trust in lieu of the complete actual copy of the Trust Agreement, if applicable if they have provided a Certification of Trust. Such must include all required information as a full trust site (i.e., revocability and all powers).

California title companies require trust certification from an attorney

- Trusts must be approved by title and title to issue Trust Mortgagor Endorsement, if applicable by state. The company document "Title Trust Approval" should be obtained for final approval.
- All trusts must be reviewed by a company-designated attorney who will issue an attorney opinion letter confirming the trust meets all HUD requirements.
- The trustee(s) must sign the Note, security instruments and their riders, Notice of Right to Cancel, and the Truth in Lending (TIL) statement.
- Illinois and Florida land trusts require a legal opinion letter, if applicable.

Property Held in Life Estate

A life deed refers to the documentation stipulating the property owner transfers legal ownership and use of some type of real estate to be used by another person for the life of a particular person. Generally, the granter and the life tenant is the same person, but that is not true in all cases in which a life estate is created. Almost all deeds creating a life estate will also name a remainderman, the person or persons who get the property when the life tenant dies.

HECM Requirements

- The borrower must be the life tenant.
- All borrower(s) and remaindermen must join in signing the applicable closing documents: the Security Instruments, Notice of Right to Cancel, the Truth in Lending Disclosure, and any applicable riders.
- The remainderman must attend HECM counseling.
- Life Estates (Texas only): Remainderman must be 62 years of age; verify and document through valid ID.
- Vesting on title must clearly identify the life tenant(s) and remaindermen.

Leasehold

Leasehold properties are eligible for financing in areas where they are common and have received market acceptance and the following conditions are met:

- A lease agreement term must be a minimum of 99 years, renewable, or have a remaining term of no less than 50 years beyond the youngest borrower's 100th birthday.
- The mortgage must cover not only the property improvements, but also the borrower's leasehold interest in the land.
- The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien and be insured by the lender's ALTA Leasehold Loan Policy.
- The lease must provide that it can be assigned, transferred, mortgaged, or sublet an unlimited number of times, either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lease must be freely assignable.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sub-lessor.
- The lease must also provide that the borrower will retain voting rights in the owner's association.
- The lease must stipulate the borrower will pay taxes, insurance, and owners association dues related to the land in addition to those the borrower is paying on the improvements.
- All lease rents, other payments, or assets that have become due must be paid and the borrower must not be in default under any other provision of the lease; the lessor cannot claim the default.
- In all respects the lease must be valid, in good standing and in full force and effect.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for non payment of the lease rents and should guarantee the borrower the right to receive notice of any default by the borrower as well the right to cure the default.
- The lease must also include provisions to protect the borrower's interests in the event the property is condemned.
- The lease may, but is not required to, include an option for the borrower to purchase the free interest in the land. If the option is included, the purchase must be at the borrower's sole option and there can be no time limit within which the option must be exercised.
- Both the lease and the option to purchase must be assignable. If any option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same decree of priority that it had on the leasehold.
- Sub-leaseholds are not acceptable to FHA.
- A copy of the entire recorded leasehold agreement is required to be in the loan file.
- Applicant must not be in default on any lease provision.
- Title to approve leasehold insuring 1st and 2nd lien provisions and issue CTLA 107.5 endorsement.

Payoffs

Updated payoffs for all items to be paid at closing (e.g., taxes, liens, judgments, and outstanding mortgages listed on title) are required before obtaining a clear-to-close (CTC), as follows:

- If there is a good-through or expiration date on the payoff, the payoff cannot be expired at the issuance of a CTC.
- If there is no expiration date on the payoff and a per diem is given, the payoff is valid for up to 30 days from the date of the payoff demand. This also applies to HELOC loans, as most HELOCs are same-day payoffs.
- After the CTC has been issued, the payoff amount may include up to 30 days of interest, beyond the payoff statement's expiration, when the statement reflects a per diem interest amount. The terms of the demand must be followed.

Seasoning Requirements for non-HECM Liens

Seasoning refers to the period of time a lien has been in place. A lien is seasoned once it has been in place for 12 months measured from lien closing to new HECM loan closing date.

We can only permit the payoff of existing non-HECM liens using HECM proceeds if the lien(s) has been in place longer than 12 months or resulted in less than $500 cash to the borrower, whether at closing or through cumulative draws.

If the lien has been in place less than 12 months (measured from non-HECM loan closing date to new HECM loan closing date), HUD requires that we review the following to determine whether the borrower received $500 or more in cash:

- HUD-1/CD from the transaction that resulted in the lien
- Pay-off statement
- If applicable, the home equity line of credit (HELOC) statements from the date the HELOC was opened

<u>All non-HECM liens over 12 months (including HELOCs)</u>

There are no restrictions on using HECM proceeds to pay off the lien as long as it has been in place for at least 12 months.

<u>Non-HECM liens less than 12 months (excluding HELOCs)</u>

If the borrower received $500 or greater cash out, the HECM cannot close until 12 months have passed.

The following are not considered cash to borrower:

- Funds paid to third parties for construction and rehab
- Loan proceeds in excess of $500 received and paid to a third party through the borrower's bank account

The following additional documentation can be used to show the payment of a third party using non-HECM lien proceeds:

- Invoice, bill or other summary of charges from a third party for services rendered

  AND

- Account statements, canceled checks and/or wire transfers documenting amount of loan proceeds received and paid out to third parties and evidencing borrower did not receive

<u>HELOC's ONLY, less than 12 months</u>

- If the borrower received $500 or greater cash out (at closing or through cumulative draws), the HELOC may be paid off using the borrower's funds, HECM proceeds, or a combination of HECM funds and the borrower's funds, as long as the draw from HECM funds does not exceed the draw limits during the first 12 months of the HECM. An unseasoned HELOC is not included as a mandatory obligation
- If the borrower did not receive at least $500 cash out (at closing or through cumulative draws), the HELOC can be paid off using HECM proceeds and IS included as a mandatory obligation.

UCC Financing Statements

- If a Uniform Commercial Code (UCC) Financing Statement is filed and recorded on title:
  - It must be reviewed to determine if it constitutes a lien encumbering the subject property.
  - If the UCC is a lien that encumbers the subject property the agreement that it relates to must be paid off, satisfied, or terminated and the UCC released from title.
- The presence of a value listed on a UCC statement does not guarantee that it is a lien encumbering the subject property. It may be a lien against equipment such as solar equipment, or a natural gas generator. The UCC statement must be reviewed to determine what collateral is listed. If the UCC is not a lien encumbering the subject property, it may not be paid off with HECM proceeds. For example, the UCC is a lien, but is a lien against solar equipment.

State and Local Court Judgments and Judgment Liens

Liens against the real estate resulting from outstanding state or local court judgments must be satisfied and removed or subordinated to the HECM first and second liens at closing.

Federal Tax Liens

Federal tax liens against the real estate must be satisfied and removed or subordinated to the HECM first and second liens at closing.

Subordinations

- Subordinations are allowed only on existing liens that are state, local or federal on the subject property. The existing liens must be in the reverse mortgage borrower's name only.
- Subordinations are not permitted for private liens/mortgages.
- All HECM loans take first and second position. A subordinated loan would take third position.
- Third position liens are allowed for existing loans whose lenders will execute a subordination agreement. Typical third position loans are low- or no-cost community assistance.
- HUD will not permit a borrower to obtain an additional loan to qualify for a reverse mortgage.
- Partial loan subordinations are not allowed. Full amount must be subordinated.
- Approval from the title company stating that the terms of the subordination agreement will insure the first (CMS) and second (HUD) lien position of the reverse mortgage.
- Subordinating lender must submit 2 subordination agreements; one addressed to our company and the second addressed to HUD (Adjustable Loans).
- Fixed loans require one subordination agreement to our company.
- The amount shown must be no less than 150% of the loan amount (max claim amount).
- Subordinating lender's acknowledgment of third lien position on the title behind our company and the Secretary of Housing and Urban Development.
- Subordination agreement must not place any restrictions on the reverse mortgage lender.

Solar Leases

A property that contains leased/non-owned equipment (solar panels), operates with a leased energy system, or under a power purchase agreement (PPA), may be eligible for FHA-insured financing but only when such agreements are free of restrictions that prevent the borrower from freely transferring the property.

Solar may be paid off using the proceeds of the principal loan limit on HECM Traditional and Refinance transactions as part of the mandatory obligations only when solar is recorded as a lien encumbering the subject property on title. When solar does not constitute a lien but does not meet the solar lease requirements above and the borrower elects to satisfy or buy out the agreement instead of terminating it, HECM proceeds may not be used to satisfy the obligation.

Eligibility

- A conventional heating system must be in place. When a solar system enhances a conventional heating system, or is used for energy efficiency, we require the following:
  - › The borrower must own the solar system
  - › If the borrower leases the system, the borrower must buy the system at closing
  - › If the borrower want to continue the lease of the solar system, the underwriter must review the file to ensure that it meets the HUD compliance guidelines

    NOTE: If the borrower chooses to continue the lease, the title report must NOT contain Uniform Commercial Code (UCC) filings, liens, or negotiations regarding the solar system. The underwriter must require a copy of any notices and verify that they are not liens against the property.

Solar Lease Requirements

- In order to be eligible for an HECM a home that operates with a leased energy system or PPA must not have any restrictions that prevent the borrower from freely transferring the property
- Such agreements are acceptable, provided they do not cause a conveyance (ownership transfer) of the insured property to:
  - › Be void or voidable by a third party.
  - › Be the basis of contractual liability of the borrower (including rights of first refusal, preemptive rights, or options related to a borrower's efforts to convey).
  - › Terminate or be subject to termination all or part of the interest held by the borrower.
  - › Be subject to the consent of a third party.
  - › Be subject to limits on the amount of sales proceeds a borrower can retain (for example, due to a lien, due on sale clause, etc.).
  - › Be grounds for accelerating the insured mortgage.
  - › Be grounds for increasing the interest rate of the insured mortgage.

Unacceptable Provisions

NOTE: Restrictions resulting from the lease or PPA only conflict with Federal Housing Administration (FHA) guidelines if they include provisions that encumber the real property or restrict the transfer of that property.

- The requirement that a third-party consent to transfer ownership of the home, such as the energy provider or system owner.
- The leasing agent requires credit approval of the purchaser before the seller can transfer ownership.

These provisions are deemed unacceptable unless the owner can terminate them without penalty.

Power of Attorney

If one or both borrowers will have a Power of Attorney (POA) signing documents on their behalf, certain procedures must be followed, and additional documentation must be included in the underwriting file. HUD does not allow for a POA to be used as simple matter of convenience. If a borrower is either mentally or physically unable to participate in the transaction, a POA may be used.

NOTE: POAs are not allowed in the state of Texas.

General Requirements

- The POA must be a notarized, fully executed durable POA which means it is valid even after the incapacity of the borrower/NBS, and it must be permanent.
- "Springing" POAs that go into effect after the incapacity of the borrower are allowed if the borrower is already incompetent and the POA meets all other requirements.
- All requirements outlined in the POA document must be met.
- The POA must be signed and notarized BEFORE application.
- The person designated as POA must provide valid, government issued photo identification and Social Security

- The POA is required to execute all documents as "Borrower's Name by POA's Name as attorney-in-fact"
- Borrower must meet the HUD face-to-face requirement and be present at time of counseling, application, or closing.
- Title company to provide written approval for use of the POA
- Original POA document will need to be provided to title at closing for recording unless already recorded
- For POA use with a trust, see Trust section for additional information
- Settlement agent/attorney must provide an alive and well affidavit for the borrower

SPECIFIC REQUIREMENTS

Mentally Incapacitated Borrower

- POA must be signed and notarized PRIOR to the date of mental incapacitation.
  - › POA must attend counseling and execute the counseling certificate
  - › Doctor's letter must be provided and include the following info:
    - Doctor's full name and license number (Underwriter must verify the license information and include the documentation in the loan file.)
    - Doctor's contact information (address and phone number) and the date the letter was written/ executed by the doctor
    - Date (month and year) the borrower was unable to handle their financial affairs
    - Certify that the borrower was able to handle their financial affairs at the time the POA was executed but is now unable to handle their financial affairs
    - Letter must be signed by the doctor and on letterhead
    - This can be two separate doctor's letters if necessary
    - POA must execute all application and closing documents

Physically Incapacitated Borrower

- borrower AND POA must attend counseling. The POA can execute the counseling certificate on the borrower's behalf.
- At least one doctor's letter is required (letter must include the following information):
  - › Doctor's full name and license number (Underwriter must verify the license and include the documentation in the loan file.)
  - › Doctor's contact information (address and phone number)
  - › Date letter was written/executed by the doctor
  - › Specific statement to the competency of the borrower (patient is competent and able to handle their financial affairs but cannot physically sign)
  - › Letter must be signed by the doctor and on letterhead
- POA must execute all application and closing documents

Power of Attorney for NBS

- A POA is not allowed for convenience and can only be used for an incompetent NBS. A POA used for an incompetent NBS will need to be reviewed and approved by senior management.

APPRAISAL

General Requirements

An appraisal is required on all loans. Appraisals must be ordered through an approved appraisal management company (AMC). All appraisal requirements can be found in HUD Handbook 4000.1

- For all HECM loans, the appraiser must be FHA-approved and must be state certified residential or certified general appraisers. Underwriting will require a new appraisal to be completed if a state certified or certified general appraiser in good standing on the FHA roster does not complete the appraisal.
- The effective date of the appraisal must be on or after the case assignment date.

Collateral Risk Assessment

Effective with Mortgagee Letter 2018-06, FHA implemented the Collateral Risk Assessment on all HECM originations to help mitigate risk to the HECM program.

- FHA will perform the collateral risk assessment on the appraisal once the appraisal is uploaded to EAD and the Appraisal Logging is completed.
- The Appraisal Logging will indicate whether a second appraisal is required.
- If a second appraisal is required, the following apply:
  - › The second appraisal cannot be completed by the same appraiser or appraisal company as the first appraisal, but the same AMC can be used.
  - › The final max claim amount will be based upon the lower of the first appraisal value or second appraisal value.

Appraisal Validity Period

The appraisal expires 180 days from the effective date of the appraisal (date of inspection). The appraisal must not expire prior to the funding date.

Appraisal Extensions

The validity period may be extended per the discretion of Underwriting, as follows, if the subject property is not in a declining market:

- Appraisal updates may be ordered prior to the 180 day expiration date and extended for up to one year from the effective date so long as the original appraisal was in Cornerstone's name. Further, the appraisal update may only be used if:
  - › It is performed by an FHA Appraiser who is currently in good standing on the FHA Appraiser Roster:

- If a substitute appraiser is used due to the lack of the original appraiser availability, the substitute appraiser must state they concur with the analysis and conclusions in the original appraisal report;

› The property has not declined in value;

› The building improvements that contribute value to the property can be observed from the street or a public way;

› The exterior inspection of the property reveals no deficiencies or other significant changes;

› The disbursement date must not exceed 1 year from the appraisal effective date.

APPRAISAL REPORTS

Appraisal Report Forms

Appraisals and related reports must be prepared on the current version of the form applicable to the property being appraised, as follows:

- Uniform Residential Appraisal Report (Fannie Mae Form 1004) is required for non-income producing single-family dwellings or single-family dwellings with an accessory unit, except for manufactured homes and condominium units.
- Market Conditions Addendum to the Appraisal Report (Fannie Mae Form 1004MC) is required for all one-to-four-unit properties.
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073) is required for individual condominiums units and site condos.
- Manufactured Home Appraisal Report (Fannie Mae Form 1004C) is required for all manufactured homes, including manufactured condominiums. For manufactured condos, the Project Information section of the Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073) must be completed and included as an addendum to the appraisal report.
- Small Residential Income Property Appraisal Report (Fannie Mae Form 1025) is required for incoming-producing two-to-four-unit properties.
- Appraisal Update or Completion Report (Fannie Mae 1004D) can be utilized for the following purposes:

  › Reinspection when the subject property is in a FEMA declared major disaster area

  - Operations receives written notification when a FEMA declared disaster has occurred. Any property located within a FEMA declared disaster area will require a 1004D (Part B):

    › For loans that have been closed: interior/exterior photos from an onsite inspector to confirm the property has not been impacted by disaster.

    › For loans that have closed but not insured: exterior photos from an on-site inspector.

  › Update to the original appraisal to extend the validity period

  › Document completion of required repairs

Appraisal Report Requirements

The following is not an all-inclusive list of appraisal report requirements – See HUD Handbook 4000.1 for more detailed information.

Private Water System

- The appraiser must determine if the property is on a private water system.
- If the property is on a private water system and it is feasible (cost equaling 3% or less than the appraisal value of the home) it must be hooked up to a public system.
- If the property is to remain on a private water system:

  › The appraiser must determine and indicate the distance between the well and septic system/leach lines meet HUD requirements. If not, the property may not qualify.

  › All other HUD-required distances must be met.

Well Distance from Pollution Source	Minimum Horizontal Distance
Property Line	10 ft.
Septic Tank	50 ft.
Absorption	100 ft.

<u>Existing Properties (≥ one year old)</u>

- Domestic Well from Septic Tank Drain Field: FHA will recognize state/local requirements that do not allow for less than 75 feet separation and there is documentation form the local jurisdiction stating the distance is in compliance with the applicable local or state distance requirement.
- All other HUD distance requirements must be met.

Shared Wells

- If the property is on a private water system and it is feasible (cost equaling 3% or less than the appraisal value of the home), it must be hooked-up to a public system.
- Shared wells must have a valve on each property service line as each line leaves the well.
- There must be a recorded binding agreement upon all parties and their successors.
- No more than four properties can be serviced by the well.
- A well test is not needed unless required by the underwriter or called for by the appraiser as a condition of the appraised value.

  › A water test must meet EPA standards, measure e-coli, total coli forms, nitrates, nitrites, lead and total nitrate/nitrite.

  › Results must show property address and date of testing.

Community Water Systems

A community water system refers to a central system owned, operated, and maintained by a private corporation or nonprofit property owner's association.

- If the property is on a community water system, the appraiser must note the name of the water company on the appraisal report.
- The appraiser must report on the availability of connection to public and/or community water system or sewer system as well as any jurisdictional conditions specific to connection requirements.

Wood Stoves and Solar Systems

- Homes with wood burning stoves and/or solar systems as a primary heat source must also have a permanently installed (per manufacturer's recommendations) heating system capable of maintaining heat to at least 50 degrees Fahrenheit in all living areas and areas containing plumbing.

ADDITIONAL INSPECTIONS

Full Home Inspection

- A full home inspection is not needed unless required by the underwriter or called for by the appraiser as a condition of appraised value.
  - In most cases a home inspection is only requested when repairs needed are too expensive to itemize on the appraisal report or if the underwriter determines a professional inspection is necessary.
  - If ordered a full home inspection is ordered, a professional home inspector must perform it.
  - The underwriter will review the inspection report to determine required repairs; all structural repairs will be required.

Termite Inspection

- A termite inspection is not needed unless required by the underwriter or call for by the appraiser as a condition of appraised value. All termite inspections must list the property address and date inspection was performed.
  - Most findings can be included in a repair rider unless the repair is a health and safety issue.
  - Health and safety repairs must be completed before closing but can be paid through escrow.
  - Review state specific law for special requirements.

Septic System Inspection

- A septic system inspection is not needed unless required by the underwriter or called for by the appraiser as a condition of appraised value.
  - The appraiser must state if the property has a septic system and if so, whether a hookup to a public system is feasible (feasible is defined as the cost of hookup being 3% or less of the appraised value of the home). If hookup is feasible, it must be done.
  - If a problem is detected, pumping and further inspection of the system is required.

Roof Inspection

- A roof inspection is not needed unless required by underwriting or called for by the appraiser as a condition of appraised value.
- If ordered, the inspection report must include the opinion (not a certification or warranty) of a licensed roofer as to whether the roof has a remaining life of at least two years.
  - If the roof has a life span of two years or more remaining, the inspection report is sufficient for the underwriting approval.
  - If the roof does not, the roofer must detail the repairs needed in order to meet the two-year requirement.
  - If repairs are not completed prior to loan approval, the roofer must estimate the repair costs in order for the costs to be included in the repair rider.
  - The roof inspection report must be submitted on letterhead from the licensed roofer.

Electrical Inspection

- An electrical inspection is not needed unless required by the underwriter or called for by the appraiser as a condition of appraised value.
  - The inspector will need to inspect the electrical system and give an opinion of the safety of the system.
  - If the system is unsafe, repairs must be completed before closing.

  NOTE: Many states require electrical contractors to be licensed. Please reference local jurisdiction requirements where the property is located.

Plumbing Inspection

- A plumbing inspection is not needed unless required by the underwriter or called for by the appraiser as a condition of appraised value.
  - The inspector must inspect the plumbing system to give an opinion on the system's integrity.
  - If repairs are needed and are not completed prior to loan approval, a licensed plumber's estimate is required to be included in the repair rider.

Foundation Inspection

- A foundation inspection is not needed unless required by the underwriter or called for by the appraiser as a condition of appraised value. If required, a foundation engineer must perform the inspection and give an opinion regarding the structural integrity of the foundation.

Heating/Wood Stove Inspection

- A heating or wood stove inspection is not needed unless required by the underwriter or called for by the appraiser as a condition of the appraised value.
- If an inspection is ordered:
  - A licensed HVAC technician must perform the inspection and issue certification the heating system is installed to code and correctly operating.
  - Any necessary repairs must be completed prior to closing if the system is ruled unsafe.

OPERATING OIL or GAS WELL

- Subject property must be greater than 75 feet away from an operating oil or gas well.

Repairs

- Required repairs will be determined based on the appraisal and any additional required inspections. Repair estimates must be provided by an appropriately licensed professional or by the appraiser.
- 1004D is to be used to report the completion of a repair and/or satisfaction of requirements and conditions noted in the original appraisal report as referenced in the header summary appraisal update and/or completion report.
- Either the FHA appraiser who performed the original appraisal or any FHA appraiser can complete the 1004D for completion of repairs. The appraiser must be in good standing per the FHA Roster.
- The 1004D may not be used if:
    - › The original appraisal has expired.
    - › The property has declined in value or is located in a declining market
    - › The exterior inspection of the property reveals deficiencies or other significant deficiencies that did not exist at the time of the original appraisal.
- Use the following guides for repair estimates:
    - › Follow all state and local guidelines regarding the type of contractor to use for the bid
    - › Include one bid for each repair item
    - › The bid must be clear regarding the repair to which the estimate pertains
    - › Ensure the company submitting the bid does so on their company letterhead (must include contractor's name, address, phone number, contractor's license number, and subject property address)
    - › The bid must be signed and dated by a company representative

Repair Set-Aside

- Some repairs may be completed after the loan closes. The process by which funds are set aside from the proceeds of the reverse mortgage and a repair rider is added to the loan agreement is call a repair set-aside
- To fulfill the requirements of a repair rider:
    - › An appropriately licensed professional must provide a written estimate for all repairs.
    - › The total repair set-aside amount cannot exceed 15% of the maximum claim amount. The total repair set-aside amount is determined by:
    - › Repair Base + 150% repair set-aside amount + repair admin fee.
    - › The minimum repair set-aside amount is $2,000. (It is recommended if repairs are below or close to the minimum, they must be completed prior to closing to avoid the set-aside and repair admin fee.)
    - › The set-aside amount may be calculated as 150% of all contractor estimates or appraiser estimates.
    - › Appraiser estimates will only be accepted if repairs total less than $2,000. The total repair set-aside amount is over-estimated to cover any unforeseen damage and expense.

    - › If the repairs are completed for less than calculated set-aside, leftover funds will be transferred to the borrower's line of credit.
    - › If the actual amount of funds needed to complete repairs exceeds the amount of the set-aside, the required repairs must be completed.
- Repair administration and reinspection:
    - › Repair and reinspection of repairs post-closing are to be handled by the assigned servicers.

PROPERTY TYPES

Eligible Properties

Not all properties meet HUD and FHA requirements to be considered eligible for an HECM. The following outlines eligible and ineligible property types.

- Single-family dwellings
    - › Single-family dwellings with Accessory Dwelling Units (ADU)
- Two-to-four-unit properties (with at least one unit owner-occupied)
- PUDs
- Condominiums (subject to approval; see Condominium section for more information)
- Townhouses
- Modular homes
- New construction (must have CO or equivalent prior to closing)

NOTE: Appraisal value of the property must be $50,000.

Ineligible Properties

- Commercial or industrial properties
- Co-ops
- Properties with limited or no marketability
- HUD REO condominiums
- Properties illegally zoned
- Boarding houses
- Bed and breakfast establishments
- Properties that have been flipped within 90 days from the last sale date
- Properties that fail to meet HUD's minimum property standards and/or requirements
- Multi-unit properties with accessory units
- Hotels, motels, and/or condotels
- Tourist houses
- Properties that cultivate or harvest marijuana plants on premises
- Properties designated in wetland restrictions and other land use restrictions
- Property used for agriculture, farming, tax deferments (agricultural/farm) or commercial enterprise
- Vacant lots/land plots
- Properties with greater than four units
- Properties located in a costal barrier resource system, federally declared wetlands, and other federally protected areas
- Properties located in Hawaii lava flow zones 1 and 2
- Property that is listed for sale
- Second or rental homes
- Timeshares, seasonal, or recreational rentals
- Grandfathered properties that cannot be completely rebuilt 100% to existing use
  - › Grandfathered properties require validation from existing zoning board that such can be rebuilt to existing use standards and are not required to meet new zoning requirements.
- Properties with undivided interest in lots
- Tribal/Native American land
- Properties with ineligible water sources (lake, cistern, or dug wells)
- Vacation homes
- Properties where the property line is within 300 feet of an above ground or subsurface stationary storage tank (including gas stations) containing more than 1,000 gallons of flammable or explosive material
- Non-residential use of property exceeding 49% of the gross building area
- Property that is subject to hazards, environmental contaminants, noxious odors, offensive sights or excessive noise that endangers or impacts the physical improvements or livability of the property, or the health and safety of its occupants and/or the structural integrity of the property including but not limited to:
  - › Excessive airport noise
  - › Subsidence, operating and abandoned wells slush pits, runaway clear zones, clear zones, or proximity high pressure gas
  - › Proximity to storage tanks containing flammable or explosive materials
  - › Located near an easement of a high voltage transmission line, radio/TV transmission tower, cell phone tower, microwave relay dish or tower, or satellite dish (radio, TV, cable, etc.)

Unique Properties

Eligibility of any unique property/non-standard house style is determined by whether the property is structurally sound, built to conform to minimum property standards, and readily marketable. Other eligibility factors may apply depending on what makes the home unique.

A unique property includes any of the following:

- Log home
- Exceptionally small home
- Mixed use, live/work
- Lower than normal ceiling height
- Dome home
- Earth berm home (sheltered housing)
- Other houses that in the appraiser's professional option are unique

Multi-Family Properties

Multi-family properties are acceptable, subject to the following:

- The subject property may not exceed four (4) units. The number of units that comprise the subject property is generally defined by the number of kitchens. One (1) of the units must be the borrower's primary residence. See section on Appraisal – Multi-Family Properties for details on appraisal requirements.
- Photos are required for all common areas (hallways, foyers, laundry rooms, etc.).
- Accessory dwelling units are not acceptable on multi-family properties.
- The unit(s) not occupied by the borrower may be occupied by tenants, as long as no unit is rented for hotel or transient use. The borrower is required to sign the borrower's Contract with Respect to Hotel and Transient Use of Property (form HUD-92651) certifying that they are not using the subject property as a hotel. The form may be signed at closing.

Accessory Dwelling Units (ADU)

An accessory dwelling unit (ADU) is defined as a habitable living unit, attached or detached from the primary residential unit on a single-family lot. These separate individual living units include separate kitchens, sleeping, and bathroom facilities.

Attached units within the primary residential single-family unit are commonly known as 'mother-in-law apartments' and are the most common type of accessory dwelling unit (ADU). The borrower must occupy the main dwelling unit, not the accessory unit.

The appraiser must make the determination to classify the property as a single-family dwelling with an ADU, or a two-family dwelling. The conclusion of the highest and best use analysis will determine the classification of the property.

An ADU is usually subordinate in size, location, and appearance to the primary dwelling unit and may or may not have separately metered utilities or separate means of ingress or egress. The appraiser must not include the living area of the ADU in the calculation of the gross living area (GLA) of the primary dwelling.

No single-family property can have more than 1 ADU, therefore the appraiser must notify the mortgagee of the deficiency in Minimum Property Requirements (MPR) or Minimum Property Standards (MPS) if more than one ADU is located on the subject Property.

Planned Unit Developments (PUD)

A PUD is a community that requires homeowners to pay a mandatory fee for their maintenance and use common areas to a homeowners association. All outstanding fees to the HOA association must be paid at closing.

Detached or attached PUDs are acceptable – subject to the following:

- PUD and project name must be reflected on the appraisal along with the amount and frequency of HOA dues. See section on Appraisal – PUD for details on appraisal requirements.
- PUD questionnaire completed indicating that if the HOA charges a mandatory transfer that fee is:
  - › Less than $500
  - › Does not go to a private entity
  - › Directly benefits the community

If a mandatory HOA transfer fee does not satisfy the above requirements, then the property is INELIGIBLE for a reverse mortgage.

- Copy of CC&Rs (upon request from underwriting).
- Master hazard insurance policy with walls-in coverage or separate HO6 policy. See section Property Insurance – PUDs for detailed requirements.

CONDOMINIUMS

Overview

A condominium is a type of joint real estate where each housing unit has a separate owner, but all owners collectively use the common areas of the building. They can also have limited common areas accessible only to certain owners.

Condominium properties are reviewed and approved according to FHA guidelines for the appropriate approval type below:

- FHA-approved condos
- Unapproved condos
  - › Full condo project approval (HRAP)
  - › Single Unit Approval (SUA)
- Site condos

FHA-Approved Condo Search

To determine what documentation is needed for approval, the following website should be checked first to search for FHA-approved condo projects: https://entp.hud.gov/idapp/html/condlook.cfm

SEARCH TIPS

- Narrow the search by the state and city only to start. If there are too many results, try adding the zip code. Using the condo name only is not advised.
- Keep the search wide by selecting status as "All."
- On the results page, you can click the hyperlinks on the condo name or comments to display more information about the project or approval.

Results

The results of your search will determine the approval process and documentation required.

- FHA-approved condos
  - › Condo project located on the list of approved condos
  - › Status reflects Approved, not Expired
- Unapproved condos – full project approval required
  - › Condo project is not located on the list of approved condos OR the status reflects Expired, Rejected, or Withdrawn AND the borrower(s) DOES NOT meet Residual Income without compensating factors OR has late property charge payments in the last 24 months.
  - › New construction – CO issued less than one year and never occupied.
  - › FHA concentration over 50%
- Unapproved condos – single unit approval required
  - › Condo project is not located on the list of approved condos OR the status reflects Expired, Rejected, or Withdrawn

AND

› The borrower(s) DOES meet Residual Income without compensating factors AND DOES NOT have late property charge payments in the last 24 months.

- Site condos
  › Condo project is not located on the list of approved condos and meets the definition of a site condo. See Site Condo section for more details.

Approved Condominiums

Condo projects that have already been approved by FHA under HRAP (HUD Review and Approval Process) will be reviewed to determine that the approval is active and that the project still meets FHA requirements.

Approved Condominium Project Requirements

- Approval Status – The condo project must reflect a status of Approved and not be expired at time of case assignment and the CONDO ID must be entered in the FHA case assignment screen. The loan can still close if the project approval expires after the case assignment.
- FHA Insurance Concentration – The number of FHA-insured mortgages within a condo project cannot exceed 50%.
- Owner Occupancy Percentage – The number of owner-occupied units in the project must be at least 35%.
- Units in Arrears – No more than 15% of the total units are in arrears.
  › Arrears refers to HOA dues and special assessments that are more than 60 days past due.
- Individual Owner Concentration – The percentage of units owned by a single owner or related party must meet the following:
  › Projects with 20 or more units – Cannot exceed 10%.
  › Projects with less than 20 units – A single owner cannot own more than one unit. No related party may own a unit.
- Master Hazard Policy - Master hazard policy in the amount of $1,000,000 or the condominium replacement cost, whichever is greater. See section Hazard Insurance – Condominium for more details.
  › HO6 insurance covering 20% appraised value if the master hazard insurance policy does not contain “walls in” coverage.
- Master Flood Policy - Master flood policy if the project is in a special flood hazard area.

Documentation Requirements:
The following needs to be submitted for all approved condominiums:

- FHA condo approval printout
- HUD Form HUD-9991 Sections 2-3 must be completed by the HOA or management company
- Master hazard policy
  › HO6 insurance covering 20% of appraised value if the master hazard insurance policy does not contain “walls in” coverage
- Master flood policy if the project is in a special flood hazard area

For detailed information on hazard and flood requirements see the Property Insurance – Condo section

Unapproved Condominiums – Full Condo Project Approval (HRAP)

Our company currently does not assist in obtaining HRAP approval for condominium projects. If the condo project is not already FHA approved and not eligible for single unit approval (SUA), then the HOA or management company must submit the documentation required to HUD directly for approval. See Section II. C. in Handbook 4000.1 for more information.

Unapproved Condominiums – Single Unit Approval

In order to approve a condominium unit using single unit approval (SUA), the condominium must meet the property eligibility and borrower eligibility guidelines. If the condominium does not meet either the property or borrower guidelines, the condominium must go through full project approval through the HUD Review and Approval Process (HRAP). HRAP takes 30-45 days for full project approval.

SINGLE UNIT APPROVAL PROPERTY GUIDELINES

Note: Single Unit Approval is not required on HECM-to-HECM refinances**

In order to be approved under SUA, the condominium must:

- Not be located in an approved condominium project or unapproved phase of a condominium project with an approved legal phase
- Have a Certificate of Occupancy (CO) that was issued at least one year ago or has been occupied
- Have at least five units
- Not be a manufactured home
- Not have ineligible characteristics per section 4.a of the HUD-9991
- Not exceed 10% FHA concentration for projects with 10 or more units; additionally the number of FHA mortgages cannot exceed two units for projects with less than 10 units
- Have at least 50% of the units as owner occupied
- Provide all the recorded documents (i.e. CC&Rs, bylaws, condominium declaration)
- Have transferred control of the condominium association to the unit owners and the CC&Rs must have been recorded
- Be financially stable, meaning:
  › Project maintains separate accounts for operating and reserve funds.
  › 10% of the budget is going to reserves. If it is not, the company must obtain a reserve study.
  › There can be no more than 15% of the total units in arrears for homeownership association (HOA) dues.
  › Project has not experienced a financial distress event, as defined in the 4000.1, in the previous 36 months.

  NOTE: If the project has experienced a financial distress event there are additional steps the company must take to determine if the project has recovered.

- Have 10% or less individual owner concentration in projects of 20 or more units or no more than one unit owned in projects with fewer than 20 units.
- Document financial independence if there is ANY commercial or non-residential presence, including obtaining the budgets, balance sheets, income, and expense statements, etc.
- Have sufficient insurance coverages, including walls-in, hazard, liability, fidelity, flood, etc.
- Not exceed 35% commercial or non-residential space.
- Not have pending litigation, or if there is any pending litigation, the condominium must provide the legal documents and an attorney opinion letter to determine if the litigation will affect the project's financial stability.

Single Unit Approval Borrower Guidelines

To be eligible for single unit approval (SUA), the HECM borrower must meet the following guidelines:

- The borrower(s) must meet the Residual Income requirements in Financial Assessment without the use of compensating factors
- The borrower(s) must have a satisfactory property charge payment history without the use of extenuating circumstances

Single Unit Documentation Requirements

- At time of case assignment request: The HOA or management company must complete at least sections 2, 3.1.a and the Total Number of Units on the HUD FORM HUD-9991 (All sections must be completed and signed/dated prior to underwriting.
    - The case assignment will be placed on Holds Tracking
    - The HUD Form HUD-9991 will be emailed to the FHA resource center so that the appropriate verifications can be completed
    - Once FHA determines whether a case number can be issued, the FHA resource center will remove the Holds Tracking and issue the case number
- At time of underwriting submission:
    - Fully completed HUD FORM HUD-9991
    - Complete, recorded covenants, conditions and restrictions (CC&Rs)/bylaws for the project including all amendments)
    - Insurance certificates for: hazard, walls-in (HO6), flood (if applicable), liability, and fidelity
    - Flood certificate
    - Current year annual budget

If any of the following circumstances apply, then provide the following:

- Leasehold: Leasehold agreement
- Pending Litigation: Explanation for the pending litigation
- Commercial/Non-Residential Space:
    - A current year budget approved by the board
    - Income and expense statement for the previous year's end result
    - A year-to-date Income and expense statement dated within 90 days if the prior year to date actuals are more than 90 years old
    - A current balance sheet dated within 90 days prior to submission
    - Recorded site condominium plans
- Distress Event:
    - Dated legal document evidencing resolution of a financial distress event and a signed explanation

Site Condominium

Site condominiums are not subject to general condominium project approval requirements, but they do have to meet the FHA definition of a site condo. If the condo project does not meet the definition of a site condo, it will need to go through the full condo project approval process or the single unit approval (SUA) process.

Site Condominium Requirements

Site condominiums must meet the following criteria:

- Single-family detached dwellings with NO shared garage, or any other attached buildings

  OR

- Single-family detached or horizontally attached (townhouse) dwellings where the unit consists of the dwelling and the land
- Do not contain any manufactured housing units

  AND

- Encumbered by a declaration of condominium covenants or a condominium form of ownership

  AND

- Insurance and maintenance costs, excluding landscape, are the sole responsibility of the unit owner

Site Condominium Documentation Requirements

- Copy of all condominium formation documentation including the CC&Rs and Master Deed
- Appraisal completed using FNMA Form 1073 – Individual Condominium Unit

Modular Homes

- Houses built or assembled in a remote facility and delivered to their intended site for assembly.
- Modular homes are evaluated the same as traditionally built dwellings of similar quality.
- No additional steps are required.

Mobile Homes

- Must be built after June 15, 1976
- Design must be a one-family dwelling
- Square footage must be at least 400 square feet
- Cannot be a single-wide
- Must be classified as real estate
- Must be permanently affixed to foundation that meets the Permanent Foundations Guide for Manufactured Housing (PFGMH)
- Must have a HUD certification label affixed to the home or obtain a letter of label verification issued on behalf of HUD, which provides evidence that the house was built after June 15, 1976 and in compliance with Federal Manufactured Home Construction and Safety Standards.
- Must have been directly transported from the manufacturer or dealer to the home site.
- Any car title associated with the mobile home must have been legally turned in to the locality.

PROPERTY CHARACTERISTICS

Excess Land

Excess land refers to land that is not needed to serve or support the existing improvement.

The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately.

There is no specified limit for the size of the lot or acreage that may be included in the value of the subject property. The appraiser determines the amount of land that should be included in the appraised value based on what is typical for the area and the highest and best use analysis which must be included in the appraisal report.

> Example:
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> If the subject of an appraisal contains two (2) or more legally conforming platted lots under one (1) legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is excess land.
>
> The value of the second lot must be excluded from the final value conclusion of the appraisal and the appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

Surplus Land

Surplus land refers to land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off.

Surplus land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

The appraiser must include surplus land in the valuation.

Multiple Parcels

The following documents will be required prior to final approval of the loan:

- When the subject property consists of more than one (1) parcel, the parcels must be adjoining, have consistent use, conform to the area, and the encumbrances of the multiple parcels may not compromise the subject property's highest and best use or lien position.
  - › The parcels may have separate tax assessor's numbers.
- When a home straddles the property line between two (2) lots, both of which are owned by the borrower, both lots are encumbered. Encumbrance must be addressed when there is a vacant, buildable lot with a separate parcel number adjoining the lot that contains the house and improvements.
- If an adjoining parcel with a separate parcel ID number will be encumbered by the reverse mortgage and value consideration given within the appraisal report for that parcel, the adjoining lot must not be a build-able lot. This is applicable only to vacant lots that do not have any structures given value consideration as noted within the appraisal report.
- If the adjoining lot contains a non-movable structure (for example, garage, water, shed, etc.) that has been given value in the appraisal report and the property's marketability without the structure would be diminished, then it would be acceptable to encumber the other lot with the reverse mortgage.

Rural Properties

Properties in rural locations and/or with agricultural zoning must meet the following requirements:

- Must be considered a residence and not an income-producing farm, orchard, vineyard, ranch, or other similar agricultural property; small hobby farms are acceptable
- Site size must be typical of surrounding properties with similar use
- Must be within reasonable commuting distance to a metropolitan area
- Must be accessible by public roads and highways
- The highest and best use of the subject property must be as a single-family residence

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