

Supporting Statement for Paperwork Reduction Act Submissions

Home Equity Conversion Mortgage (HECM)

Insurance Application for the Origination of Reverse Mortgages and Related Documents

OMB Control Number 2502-0524

HUD-92901, HUD-92902, HUD-92051, HUD-92561,

- **Justification:**

1.

Regulations codified at 24 CFR 206.1 through 206.211 detail the requirements pertinent to HUD's HECM program. Section 255 of the National Housing Act of 1934 authorizes the FHA reverse mortgage program for the elderly, the Home Equity Conversion Mortgage (HECM) program (12 U.S.C.1715Z-20). The Housing and Community Development Act of 1987 (42 U.S.C. 3543--Sec. 3543) specifically provides authority to collect Social Security Numbers.

HUD provided (Federal Register Volume 77, number 196) a System of Record Notification (SORN) describing a new HECM program system termed HERMIT (Home Equity Reverse Mortgage Information Technology).

A HECM allows senior homeowners to convert a portion of accumulated home equity into monthly streams of income and/or lines of credit. Unlike a traditional home equity mortgage where the borrower makes principal and interest payments to a lender, with a HECM the lender pays the borrower.

2. There are three types of respondents, including mortgage originators that handle the origination of the HECM loan, HECM housing counselors that conduct counseling session with borrowers and mortgage servicers that handle the servicing of the HECM loan.

HECM Counselors

A. Counseling Requirements

There are approximately 850 HECM counselors. In accordance with statutory provisions of Section 255, prospective borrowers and other persons with an interest in the mortgaged property must receive HECM counseling from HUD-approved housing counseling agencies that discuss a) the options, other than a HECM, that are available to the homeowners, including other housing, social service, health, and financial options; b) other home equity conversion options that are or may become available to the homeowner, such as other reverse mortgage products, sale-leaseback financing, deferred payment loans, and property tax deferral; c) the financial implications of entering into a HECM; d) a disclosure that a home equity conversion mortgage may have tax consequences, affect eligibility for assistance under federal and state programs, and have an impact on the estate and heirs of the homeowners; and e) whether the prospective borrower has signed a contract or agreement with an estate planning firm that requires, or purports to require, the borrower to pay a fee on or after closing that may exceed amounts permitted by the Secretary under 24 CFR 206.31 and the extent to which these services may not be needed or may be available at nominal or no cost from other sources, including the lender (24 CFR 206.41(b)). At the conclusion of each counseling session, HECM counselors must complete a Certificate of HECM Counseling, form HUD-92902, and have the eligible HECM borrower(s), sign and date the form. The borrower must provide the signed and dated certificate to the lender for processing of their loan application. (24 CFR 206.41) With this submission, HUD requests burden hours of 1.0 hours per counselor for the counselor session.

The information collected is the Homeowner(s)' Name and property address. Also collected is the Counselor's name, Name address and phone number of HUD-approved Housing Counseling agency – which is public information. The HECM counselor meets with the client either on the phone, on Skype or in person. The client provides the personal information which is then recorded on the HUD Form 92902, Certificate of HECM Counseling. The HECM Certificate is required prior to a lender processing a loan in FHA Connection. The certificate is completed electronically in FHA Connection by the counselor and then printed out so the client and counselor can both sign it. Each certificate is assigned a unique identifier in the FHA Connection. The information will only be collected one time per counseling session. The HECM lender is provided with a copy of the signed certificate either directly from the client or the counselor faxes the signed certificate to the lender once the client has given permission to do so. The lender can then look up the certificate in FHA Connection with the

unique identifier to link the certificate to the client's FHA Connection loan number. HUD Form 92902 was added to FHA Connection in October 2009 in conjunction with the HECM Counselor Roster.

Mortgage Originators

The respondents are approximately 1100 HECM lenders. HUD estimates that lenders will receive approximately 129,000 new HECM loan applications for review and approval.

- **Loan Processing Requirements**

FHA insures reverse mortgages for one to four family units under various provisions of the National Housing Act. With any HECM loan insured under this section, the borrower must complete a loan application and the HUD/VA Addendum to the Uniform Residential Loan Application, HUD 92900-A (also used for standard FHA loan applications under OMB control number 2502-0059). Currently, the borrower completes the Residential Loan Application for Reverse Mortgage (FNMA-1009), as part of the application process. The FNMA-1009 is a standard business practice, and HUD requests no burden hours with this submission. FNMA-1009 is a Fannie Mae form, not a HUD form. Information to complete the application form may be collected from the borrower over the phone or in person. In addition, borrowers themselves may complete the form. The information is only collected one time. Fannie Mae no longer purchases HECM loans and Single Family Housing/Program Development/Valuation Division plans to convert the form into a HUD form.

In addition, the borrower is required to provide other documents related to income, asset verification, and property eligibility. These documents are approved under OMB Control Number 2502-0059, and HUD does not request burden hours in this submission. The form HUD-92800.5b is approved under OMB Control Number 2502-0494, and HUD does not request burden hours in this submission.

HUD has provided samples of the different documents lenders may use in HECM loans. Copies of those samples are attached. Similar documents are used as standard business practice, and HUD requests no burden hours.

- **Underwriting**

The duties and responsibilities of the lender for underwriting and funding the loan are universal to the mortgage lending industry. The lender will review the borrower's credit report and appraisal reports (FNMA-1004, FNMA-1004c, FNMA-1073, and FNMA-1025; OMB Information Collection 2502-0538) to ensure the FHA requirements have been met for final approval of the loan application. The lender must note property conditions that must be addressed prior to closing, on form HUD 92800.5b (OMB Information Collection 2502-494). This includes, but is not limited to, ensuring marketable title, identifying needed repairs, proper insurance, arrangements for Federal debts have been made, release of mechanics liens, and reviewing existing debt structure. HUD requests no burden hours for underwriting in this submission. HUD has proposed a regulation requiring that HECM lenders conduct a financial assessment for applicants in order to ensure that the HECM proceeds, along with other sources of household income, are sufficient for borrowers to pay ongoing property related expenses, such as property taxes and insurance. HUD requests burden hours per response of 1.25 hours for the financial assessment. In conducting the financial assessment, lenders will ask borrowers about their current income and assets (as reported on Fannie Mae form 1009) along with expected household and other expenses. Information will be collected in person or over the phone and will only be collected one time. In addition, effective October, 2010, HECM lenders are required to explain a new HECM mortgage insurance premium option (termed HECM Saver). Lenders must compare the costs and proceeds of the HECM saver option to the costs and proceeds of the HECM standard option. HUD requests burden hours per response of .46 hours.

- **Disclosure Requirements**

Unique to the HECM loan, the lender must compute two interest rates: 1) the expected average mortgage interest rate, used to calculate the principal limit and payment plan, and 2) the mortgage interest (accrual or note) rate, to setup the loan. At loan application, the lender must provide the borrower with a written disclosure explaining any adjustable interest rate features of a mortgage that will include circumstances in which the rate may increase; limitations on the increase; and the effect of an increase. Lenders are required to disclose the current index amount; the date of publication of the index; and the new interest rate, at least 25 days before any adjustment to the interest rate occurs. (24 CFR 206.21) (OMB Information Collection 2502-0322)

The lender bears the responsibility of ensuring the loan meets FHA requirements and applicable State law. As a standard mortgage business practice, the lender has the responsibility of communicating the terms and conditions of the mortgage

transaction, as described in the Note, Security Instrument, Loan Agreement and Exhibits, Good Faith Estimate, Truth-In Lending Act Disclosure, and other legal documents. The terms and conditions of the mortgage transaction, payment plan options and available interest rates are discussed at loan application with the borrower. (OMB Information 2502-0059 and OMB Information Collection 2502-0265) HUD requests no burden hours in this submission.

- **Refinance Requirements**

Section 201 of the American Homeownership and Economic Opportunity Act of 2000 (Pub. L. 106-569, approved December 27, 2000) amended the NHA to authorize the refinancing of existing HECMs. Lenders must complete for each borrower an Anti-Churning Disclosure form (HUD-92901) to ensure that the borrower is not being induced into refinancing an existing HECM without benefit or solely for the benefit of the mortgagee. The Anti-Churning form collects the following information: the total cost of the refinancing transaction based upon the mortgagee's estimate and an estimate of the new principal limit amount. With this submission, HUD requests burden hours per response of .50 hours. The information is collected just one time.

- **Closing**

In accordance with 206.43, the lender must 1) disclose to the borrower, all costs of obtaining the mortgage and clearly state which charges are required to obtain the mortgage and which are not required to obtain the mortgage; 2) ask the borrower about any costs or other obligations that the borrower has incurred to obtain the mortgage; and 3) make sufficient inquiry, at closing, to confirm that the borrower will not use any part of the amount initial disbursement for payments to or on behalf of an estate planning service firm when the borrower requests at least 25% of the net principal limit at closing. At closing, the lender and borrower will review and execute the HUD-1, HUD-1 Addendum and other loan documents. After closing, the lender bears the responsibility of issuing loan payments to borrowers, according to their selected payment plan option, and ensuring the completion of repairs as evidenced by the Compliance Inspection Report (OMB Information Collection 2502-0189 and OMB Information Collection 2502-0265). HUD requests no burden hours in this submission.

The Good Faith Estimate provides the borrower with an understanding of the amount needed to close the mortgage transaction and the amount available to the borrower. A Truth in Lending Act Disclosure states whether the loan is an open-end or closed-end credit. The Loan Agreement describes the lender's conditions for making loan advances to the borrower as described in the Note and Security Instrument. It defines financial terms and documents used in the mortgage transaction. The lender provides the Loan Agreement concurrently with the Note and Security Instrument. The Note serves as a promissory note of repayment and the Security Instrument is used to secure a lien against the property. These documents are executed by the borrower. (OMB Information 2502-0059 and OMB Information Collection 2502-0265) HUD requests no burden hours in this submission.

- **Endorsement**

Lenders are required to submit case binders to HUD for review and endorsement. (OMB Information 2502-0059) HUD requests no burden hours in this submission.

Both Mortgage Originators and Mortgage Servicers wishing to participate in the program must establish an account through the Treasury Department's Pay.Gov Program. Approximately 50 originators/servicers per year are entering the program and setting up a Pay.Gov account. With this submission, HUD requests burden hours per response of .25 hours

- **Information Systems**

While all originating Lenders use the mortgage application and other data collection methods, described above, only about 250 lenders use HUD's HERMIT system to remit initial mortgage insurance premiums (MIP) to HUD. The HERMIT system interfaces with other HUD systems. Lenders remitting the initial MIP use their own automated loan origination systems to download much of the information to HERMIT and other HUD systems. HUD requests burden hours per response of .033 hours (two minutes).

Mortgage Servicers

There are approximately ten Mortgage Servicer respondents. Mortgage servicers handle all ongoing servicing activities of HECM loans, including remitting monthly insurance premiums to HUD. HUD estimates that HECM servicers are servicing approximately 607,000 HECM loans. Servicers use their own automated servicing systems to download and interface with HUD's HERMIT system. HUD requests burden hours per response of .10 burden hours (six minutes).

3. Mortgage Originators: Vendors are currently supplying originating lenders with soft copies of the Note, Security Instrument, and Loan Agreement. The HUD Website allows lenders and counselors to download HUD forms. Automated technology is being used to gather information needed for the completion of the appraisal report and calculation of payment plan options. Each loan application has its own unique characteristics of property, mortgage amount and borrower data; therefore, the use of computers can only be applied to the storage and retrieval of reference information and not to the burden-reduction aspect. Mortgage originators use HUD's HERMIT system to electronically remit the upfront mortgage premium to HUD. The burden is the minimum and consistent with the statutory and regulatory requirements.

Mortgage Servicers: Servicers use their own automated systems to service HECM loans. These systems interface and upload data into HUD's HERMIT system. The burden is the minimum and consistent with the statutory and regulatory requirements.

4. There is no duplication of information. This information collection is not collected elsewhere.
5. No significant impact on small businesses or other small entities.
6. The information is necessary to screen mortgage insurance applications in order to protect the FHA insurance fund and the interests of consumers and potential borrowers. Without the collection of information, the Federal Program would be open for misuse by "interested Third Parties," such as estate planning service firms and the Federal Program could be open for misuse by Lenders and an abundance of consumer complaints because the borrower didn't understand the program requirements. Automated information sent to HUD through the HERMIT system is necessary in order for HUD to protect and manage the FHA insurance fund.
7. There are no special circumstances in the collection of this information.
8. In accordance with 5 CFR 1320.8(d), this information collection soliciting public comments was announced in the *Federal Register* on August 31, 2012 (Volume 77, Number 170, Page 53209-10). No comments were received.

FHA has a close working relationship with FHA lenders who originate HECMs, thus, it is our intention to contact the National Reverse Mortgage Lender's Association and HUD Homeownership Center staff to solicit their input on this collection.

9. No gifts are paid to respondents.
10. Mortgage insurance files and financial documentation generally fall under the confidentiality provisions of the Privacy Act and Freedom of Information Act. The Housing and Community Development Act of 1987, 42 U.S.C. 3543, requires persons applying for a federally insured or guaranteed loan to furnish his/her Social Security Number (SSN) or Employer Identification Number (EIN). The inclusion of SSN/EIN is considered a confidential matter. A Privacy Act notice is printed on the appropriate HUD forms. HUD assures confidentiality to respondents on other information collected if it would result in competitive harm in accord with the Freedom of Information Act (FOIA) provisions.
11. This information collection contains questions of a sensitive nature. The information is necessary to screen mortgage insurance applications in order to protect the FHA insurance fund and the interests of consumers and potential borrowers. Without the collection of information, the Federal Program would be open for misuse by "interested Third Parties," such as estate planning service firms and the Federal Program could be open for misuse by Lenders and an abundance of consumer complaints because the borrower didn't understand the program requirements. Automated information sent to HUD through the HERMIT system is necessary in order for HUD to protect and manage the FHA insurance fund

12. Estimated public burden

Information Collection	Number of Respondents	Frequency of Response	Total Annual Responses	Hours per Response	Total Annual Burden Hours	Hourly Rate	Total Annual Cost
Counselors use of HUD 92902	850	varies	72,000	1.0	72,000	\$15	\$1,080,000
Establish a Pay.Gov Account	500	varies	50	.25	12.5	\$22	\$275
Originating Lender conducts financial assessment	1100	Varies	72,000	1.25	90,000	\$22	\$1,980,000
Originating Lender describes differences between HECM Saver and HECM Standard MIP and factors	1100	Varies	72,000	.46	33,120	\$22	\$728,460
Originating lenders use of HUD-92901	1100	Varies	30,000	.50	15,000	\$22	\$330,000
Consumer Measures Against Excessive Fees disclosure Provided by Originating Lenders	1100	Varies	72,000	.16	11,520	\$22	\$253,440
Originating Lenders' data interface with HUD's HERMIT system	250	Varies	72,000	.033	2,376	\$22	\$52,272
Mortgage Servicers' data interface with HUD's HERMIT system	10	Varies	607,000	.10	60,700	\$22	\$1,335,400
Totals	6010		997,050	3.753	284,728.5		\$5,759,847

The \$22.00 hourly rate reflects the cost to the lender for the origination and servicing of the mortgage.

The \$15.00 rate reflects the cost paid to counselors for providing counseling services to the mortgagor regarding the fees associated with applying for the HECM program and refinancing existing HECM loans.

13. There are no additional costs to respondents or record keepers resulting from the collection of this information.

14. There is no annual cost to the Federal government.

15. This is a revision of a currently approved collection. Reduction in burden hours is due to development of a new HECM system and because HUD projects significant lower loan origination volumes caused by (1) large lenders who exited the HECM business and (2) lower home values nation-wide which reduced consumer demand and eligibility for the program.

16. The results of this information collection will not be published because the data contains personal information.

17. HUD is not seeking approval to avoid displaying the OMB expiration date.

18. There are no exceptions to the certification statement identified in item 19 of the OMB 83-I. The forms will be modified upon OMB review.

B. Collections of Information Employing Statistical Methods.

Statistical methods are not used as they would not increase accuracy or reduce reporting burden.