



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

DATE: September 3, 2013

TO: ALL FHA-APPROVED MORTGAGEES

MORTGAGEE LETTER 2013-27

Subject Changes to the Home Equity Conversion Mortgage Program Requirements

Purpose This Mortgage Letter implements several changes to the Home Equity Conversion Mortgage (HECM) program that will strengthen the FHA Mutual Mortgage Insurance Fund (MMIF or Fund), thereby protecting the viability of the HECM program.

The changes affect the following requirements:

- initial disbursement limits;
 - new Single Disbursement Lump Sum payment option;
 - initial mortgage insurance premiums;
 - initial mortgage insurance premium calculation for refinance transactions;
 - new Principal Limit factors;
 - financial assessment requirements; and
 - funding requirements for the payment of property charges based on the financial assessment.
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Background Since the 2009 housing and economic recession, the HECM portfolio has experienced major mortgagor demographic and behavioral changes that have contributed to additional risks to the MMIF. Some of the changes include shifting from a predominately adjustable interest rate mortgage with mortgagors electing to receive payments over time using the line of credit or modified tenure/term payment options to a fixed interest rate mortgage where mortgagors draw down all funds at the time of loan closing; younger mortgagors with higher amounts of property indebtedness; and increasing property charge defaults. These and other factors have caused higher payouts of insurance claims.

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Background (continued)

Many of these changes are highlighted in the June 28, 2012, [“Reverse Mortgages Report to Congress”](#) that was published by the Consumer Financial Protection Bureau.

FHA’s Fiscal Year 2012 report to Congress on the financial status of the MMIF, issued November 16, 2012, reported substantial stress in the HECM program and projected the economic value of the HECM portfolio to be negative \$2.8 billion. In response to these concerns, Congress recently passed and the President signed the Reverse Mortgage Stabilization Act of 2013 which amends section 255(h) of the National Housing Act. This amendment authorizes the Secretary to “establish, by notice or mortgagee letter, any additional or alternative requirements that the Secretary, in the Secretary’s discretion determines are necessary to improve the fiscal safety and soundness of the program.” The Secretary has determined that the changes announced in this Mortgagee Letter are necessary to improve fiscal soundness of the HECM program. These critical program changes will realign the HECM program with its original intent, and thereby aid in the restoration of the MMIF and help ensure the continued availability of this important program.

Effective Date

The policy requirements in this Mortgagee Letter are effective as follows:

Policy Requirements	Effective Date
Origination	
Initial Disbursement Limits	Case numbers assigned on or after September 30, 2013
Single Disbursement Lump Sum Payment Option	Case numbers assigned on or after September 30, 2013
Initial Mortgage Insurance Premiums	Case numbers assigned on or after September 30, 2013
Principal Limit Factor Tables	Case numbers assigned on or after September 30, 2013
Initial Mortgage Insurance Premium Calculation for Refinance Transactions	Case numbers assigned on or after September 30, 2013
Financial Assessment Requirements	Case numbers assigned on or after January 13, 2014
Funding Requirements for the Payment of Property Charges	Case numbers assigned on or after January 13, 2014

Important: Mortgagees must continue to comply with all existing program requirements that are not changed by the provisions of this Mortgagee Letter.

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Adaptation of Legal Documents

Mortgagees must make the necessary and appropriate modifications to HECM legal documents to ensure compliance with FHA HECM origination and servicing requirements, as well as other Federal, State and local laws.

Affected Regulations, Mortgagee Letters and Handbooks

The requirements in this Mortgagee Letter replace and update certain HUD regulations, various mortgagee letters, and HUD Handbook 4235.1 REV-1. The table below highlights current policy and regulatory items that are affected in whole or in part by these changes.

Affected Regulations, Mortgagee Letters, and Handbook	Policy Change Description
24 CFR §206.19 and §206.25	<ul style="list-style-type: none"> • This Mortgagee Letter adds a new Single Disbursement Lump Sum payment option which is defined as a single disbursement at origination equal to the greater of 60% of the Principal Limit, or the mandatory obligations plus 10% of the Principal Limit. • This Mortgagee Letter establishes for all current payment options: <ul style="list-style-type: none"> ○ A first year disbursement limitation; and ○ Adds a Life-Expectancy Set Aside for property for property charges when required by the mortgagee. • This Mortgagee Letter provides updated instructions for calculating the initial disbursement to the mortgagor at loan closing.
24 CFR §206.29 and §206.31	<ul style="list-style-type: none"> • This Mortgagee Letter consolidates the requirements of §206.29 and §206.31 into a listing of mandatory obligations (see page 17 and 18 of this Mortgagee Letter) that must be satisfied at the time of loan closing. • This Mortgagee Letter removes the payment of an annuity premium as a charge that can be paid at loan closing.

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Affected Regulations, Mortgage Letters and Handbooks
(continued)

Affected Regulations, Mortgage Letters, and Handbooks	Policy Change Description
24 CFR §206.37	<ul style="list-style-type: none"> This Mortgagee Letter requires the mortgagee to conduct a financial assessment before loan approval and loan closing to establish a general credit standing satisfactory to the Secretary.
24 CFR §206.205	<ul style="list-style-type: none"> This Mortgagee Letter implements a requirement that mortgagees mandate the use of mortgage proceeds or establish a life expectancy set-aside to fund property charge payments where the results of the financial assessment required by 24 CFR § 206.37 warrant it. This Mortgagee Letter provides that the mortgagor is unable to cancel a property charge set aside or the use of mortgage proceeds when required by the mortgagee based upon the results of the financial assessment.
Housing Notice 2013-01	<ul style="list-style-type: none"> Eliminated in its entirety.
Mortgagee Letter 2013-01	<ul style="list-style-type: none"> Eliminated in its entirety.
Mortgagee Letter 2010-34	<ul style="list-style-type: none"> This Mortgagee Letter replaces all references to HECM Saver and HECM Standard initial mortgage initial premium options. This Mortgagee Letter replaces all references to HECM Saver and HECM Standard principal limit factor tables. This Mortgagee Letter updates the refinance initial mortgage insurance premium examples.
Mortgagee Letter 2010-22	<ul style="list-style-type: none"> This Mortgagee Letter builds upon the HECM Required Documents for Endorsement.

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Affected
Regulations,
Mortgagee
Letters and
Handbooks
(continued)

Affected Regulations, Mortgagee Letters, and Handbook	Policy Change Description
Mortgagee Letter 2009-34	<ul style="list-style-type: none"> • Eliminated in its entirety.
Mortgagee Letter 2008-08	<ul style="list-style-type: none"> • This Mortgagee Letter builds upon the existing fixed interest rate mortgage policy guidance.
<p>Handbook 4235.1 REV-1:</p> <ul style="list-style-type: none"> - paragraph 4-7 - paragraph 1-16 - paragraph 5-7 - paragraph 5-12 <p>Other sections affected include: 5-3, 5-5, 5-7, 5-8, 5-9, 5-10</p>	<ul style="list-style-type: none"> • This Mortgagee Letter requires mortgagees to use all credit report content and replaces the statement, “The lender’s review of the report should be limited to the Public Records Information Section, in order to determine whether or not the borrower is delinquent or in default on any Federal debts.” • This Mortgagee Letter requires changes to several parts of Chapter 5 to reflect the First 12-Month Disbursement Limit impact on full access to Principal Limit and Net Principal Limit and the addition of a property charge set-aside to Net Principal Limit calculation. • This Mortgagee Letter updates the partial repayment requirements.
Handbook 4330.1, Chapter 13 and Handbook 4235.1 REV-1 Chapter 4	<ul style="list-style-type: none"> • This Mortgagee Letter implements a requirement that Mortgagees mandate the use of mortgage proceeds or establish a life expectancy set-aside to fund property charge payments where the results of the financial assessment required by 24 CFR § 206.37 warrant it. • This Mortgagee Letter provides that the mortgagor is unable to cancel a property charge set aside or the use of mortgage proceeds when required by the mortgagee based upon the results of the financial assessment. • The Mortgagee Letter updates the partial repayment requirements.

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Initial Disbursement Limits

Overview This section of the Mortgagee Letter announces new limitations on the amount of mortgage proceeds that can be advanced at loan closing or during the First 12-Month Disbursement Period after loan closing; the new Single Disbursement Lump Sum payment option; and defines what fees and charges are considered Mandatory Obligations.

Note: The ending period for the First 12-Month Disbursement Period is the day before the anniversary date of loan closing. When the day before the anniversary date of loan closing falls on a Federally-observed holiday, Saturday or Sunday, the end period will be the next business day.

**Single
Disbursement
Lump Sum
Payment
Option**

A new Single Disbursement Lump Sum payment option will be available for adjustable and fixed interest rate HECMs for case numbers assigned on or after September 30, 2013.

This payment option will be limited to a single disbursement at loan closing which cannot exceed the **greater** of:

- 60% of the Principal Limit; or
- Mandatory obligations (see page 17 and 18 of this Mortgagee Letter) plus 10% of the Principal Limit.

Set Asides requiring disbursements after close may be offered under this option.

**Policy and
Definitions**

The table below provides new and updated policy requirements and definitions that support the new policies announced in this Mortgagee Letter. Mortgagees must adopt these definitions to properly set up new loans and make disbursements according to the limitations specified below.

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Initial Disbursement Limits

Policy and
Definitions
(continued)

Definition	Term, Tenure, Line of Credit, Modified Term, and Modified Tenure Payment Options	New Single Disbursement Lump Sum Payment Option
First 12-Month Disbursement Period	<p>The First 12-Month Disbursement Period begins on the day of loan closing and ends on the day before the anniversary date of loan closing. When the day before the anniversary date of loan closing falls on a Federally-observed holiday, Saturday or Sunday, the end period will be on the next business day.</p> <p>Example 1: If the loan closed on December 9, 2013, the First 12-Month Disbursement Period begins on December 9, 2013 and ends on December 8, 2014.</p> <p>Example 2: If the loan closed on January 2, 2014, the First 12-Month Disbursement Period begins on January 2, 2014 and ends on January 2, 2015.</p>	Not applicable

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Initial Disbursement Limits

Policy and
Definitions
(continued)

Definition	Term, Tenure, Line of Credit, Modified Term, and Modified Tenure Payment Options	New Single Disbursement Lump Sum Payment Option
Initial Disbursement Limit	<p>The maximum disbursement allowed at loan closing and during the First 12-Month Disbursement Period is:</p> <p>The greater of:</p> <ul style="list-style-type: none"> • sixty percent (60%) of the Principal Limit; or • the sum of Mandatory Obligations plus ten percent of the Principal Limit. <p>Important: The combination of Mandatory Obligations, Set Asides and other charges defined on page 18 cannot exceed the combined total of Mandatory Obligations plus 10% and cannot exceed the Principal Limit amount established at loan closing.</p> <p>Note: The combination of Mandatory Obligations, Set Asides and other charges defined on page 18 will reduce the amount of funds available to the mortgagor during the First 12-Month Disbursement Period.</p>	<p>The maximum disbursement allowed at loan closing is:</p> <p>The greater of:</p> <ul style="list-style-type: none"> • sixty percent (60%) of the Principal Limit; or • the sum of Mandatory Obligations plus ten percent of the Principal Limit. <p>Note: The combination of Mandatory Obligations, Set Asides and other charges will reduce the amount of funds available to the mortgagor.</p> <p>The Initial Disbursement Limit can only be taken at the time of loan closing.</p>
Mandatory Obligations	<p>Fees and charges incurred in connection with the origination of the HECM that are paid at loan closing (See page 17 and 18 of this Mortgagee Letter for a list of the Mandatory Obligations).</p>	

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Initial Disbursement Limits

**Policy and
Definitions
(continued)**

Definition	Term, Tenure, Line of Credit, Modified Term, and Modified Tenure Payment Options	New Single Disbursement Lump Sum Payment Option
<p>Mandatory Obligations plus 10% of the Principal Limit</p>	<p>When the mortgagor's Mandatory Obligations exceed 50% of the Principal Limit, the mortgagor is eligible to take an additional 10% of the Principal Limit amount. Mortgagors have the option of taking a partial disbursement or all of the additional 10% (provided the Principal Limit is large enough to enable them to do so), but are not required to take all or part of the 10%.</p> <p>At loan closing, mortgagors must inform the mortgagee of their intent to use part or all of the additional 10% of the Principal Limit at the time of loan closing or during the First 12-Month Disbursement Period so that the correct amount of initial MIP is collected.</p> <p>When the combination of Mandatory Obligations, other defined charges (see page 18) and the additional 10% exceeds 60% of the Principal Limit, a higher initial mortgage insurance premium (MIP) must be charged (see page 20).</p>	<p>When the mortgagor's Mandatory Obligations exceed 50% of the Principal Limit, the mortgagor is eligible to take an additional 10% of the Principal Limit amount. Mortgagors have the option of taking a partial disbursement or all of the additional 10% (provided the Principal Limit is large enough to enable them to do so), but are not required to take all or part of the 10%.</p> <p>At loan closing, mortgagors must inform the mortgagee of their intent to use part or all of the additional 10% of the Principal Limit.</p> <p>When the combination of Mandatory Obligations, other defined charges (see page 18) and the additional 10% exceeds 60% of the Principal Limit, a higher initial mortgage insurance premium (MIP) must be charged (see page 20).</p>

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Initial Disbursement Limits

Determining the Principal Limit

The Principal Limit is established at closing and is the maximum amount that a mortgagor may receive from the HECM before any disbursements are made.

The Principal Limit is determined by multiplying the Maximum Claim Amount by the Principal Limit Factor corresponding to the age of the youngest mortgagor and the Expected Average Mortgage Interest Rate.

Important: The Principal Limit will continue to “increase” by the Mortgage Note Interest Rate on a monthly basis; however, the increased amount will not be available for the mortgagor to draw against until the expiration of the First 12-Month Disbursement Period.

Determining and Tracking Disbursement Limit

The mortgagee is responsible for determining the maximum Initial Disbursement Limit dollar amount that may be disbursed to the mortgagor (or legal representative) and/or used for Mandatory Obligations, Set Asides and other charges incurred with originating the HECM at:

- loan closing for Single Disbursement Lump Sum payment option; or
- during the First 12-Month Disbursement Period.

Mortgagees must monitor and track all disbursements that occur during the First 12-Month Disbursement Period and that are added to the loan balance, to ensure the total amount of the disbursements does not exceed the maximum Initial Disbursement Limit or Principal Limit dollar amount.

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Initial Disbursement Limits

Initial Disbursement Limit Examples

The examples below demonstrate the application of the new policy limiting disbursements at loan closing and/or during the First 12-Month Disbursement Period to the greater of 60% of the Principal Limit or sum of Mandatory Obligations plus 10% of the Principal Limit.

Initial Disbursement Limit Example 1: Mandatory Obligation of 60% or less of the Principal Limit

- Principal Limit: \$100,000
- Mandatory Obligations: \$40,000
- Repair Set Aside: \$0
- 60% of the Principal Limit: \$60,000
- Initial Disbursement Limit Amount: \$60,000, includes \$40,000 in Mandatory Obligations and \$20,000 to Mortgagor

The Mortgagor can draw the \$20,000 exceeding Mandatory Obligations and Set Aside at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$20,000 that exceeds the Mandatory Obligations and Set Aside.

Initial Disbursement Limit Example 2: Mandatory Obligations in excess of 60% of the Principal Limit

- Principal Limit: \$100,000
- Mandatory Obligations: \$65,000
- Repair Set Aside: \$0
- 10% of Principal Limit: \$10,000
- 60% of the Principal Limit: \$60,000
- Initial Disbursement Limit Amount: \$75,000, includes \$65,000 in Mandatory Obligations and \$10,000 to Mortgagor

The Mortgagor can draw the \$10,000 exceeding Mandatory Obligations and Set Aside at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$10,000 that exceeds the Mandatory Obligations and Set Aside.

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Initial Disbursement Limits

**Disbursement
Limit Examples**
(continued)

Initial Disbursement Limit Example 3: Mandatory Obligations of 60% or less of the Principal Limit

- Principal Limit: \$200,000
- Mandatory Obligations: \$17,000
- Repair Set Aside: \$33,000
- 60% of the Principal Limit: \$120,000
- Initial Disbursement Limit Amount: \$120,000, includes \$17,000 in Mandatory Obligations, \$33,000 Set Aside and \$70,000 to Mortgagor

The mortgagor can draw the \$70,000 exceeding Mandatory Obligations and Set Aside at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the mortgagor is limited to a single draw at loan closing for the \$70,000 that exceeds the Mandatory Obligations and Set Aside.

Initial Disbursement Limit Example 4: Mandatory Obligations in Excess of 60% of the Principal Limit

- Principal Limit: \$200,000
- Mandatory Obligations: \$140,000
- Repair Set Aside: \$13,000
- 10% of the Principal Limit: \$20,000
- 60% of the Principal Limit: \$120,000
- Initial Disbursement Limit Amount: \$160,000, includes \$140,000 Mandatory Obligations, \$13,000 Repair Set Aside and \$7,000 to Mortgagor

The Mortgagor can draw the \$7,000 exceeding Mandatory Obligations and Set Aside at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$7,000 that exceeds the Mandatory Obligations and Set Aside.

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Initial Disbursement Limits

**Applicability of
First 12 Month
Disbursement
Period To
Payment Plan
Options**

The Initial Disbursement Limit and First 12-Month Disbursement Period is applicable to Term, Tenure, Line of Credit, Modified Term and Modified Tenure Payment Plans and subsequent payment plan changes that occur during the First 12-Month Disbursement Period.

Note: The First 12-Month Disbursement Period is not available for the Single Disbursement Lump Sum Payment option, which restricts disbursement to the amount provided at closing.

Line of Credit: During the First 12-Month Disbursement Period, if a requested disbursement would exceed the Initial Disbursement Limit, the mortgagee may make a partial disbursement to the mortgagor for the amount that will not exceed the limit. Once the First 12-Month Disbursement Period ends, the mortgagor may request subsequent disbursements up to the available Principal Limit.

Term and Tenure Payments: Mortgagees must ensure Tenure and Term monthly payments made to the mortgagor during the First 12-Month Disbursement Period are equal and do not exceed the Initial Disbursement Limit.

Once the First 12-Month Disbursement Period ends, Term and Tenure payments may be adjusted to reflect the available Principal Limit.

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Initial Disbursement Limits

Applicability of First 12-Month Disbursement Period To Payment Plan Options
(continued)

If the mortgagor makes a partial repayment¹ of the principal balance (outstanding loan balance) during the First 12-Month Disbursement Period, the mortgagee must increase the available Principal Limit by the amount applied toward the outstanding loan balance, up to an amount not to exceed the Principal Limit amount established at origination.

Disbursement Timeframe Examples

The following table compares current disbursement options from the date of loan closing through the life of the loan with disbursement options that will be available when this Mortgagee Letter goes into effect.

Disbursements Timeframes		
Disbursement Time Frame	Disbursement Limits for Case Numbers Issued on, or Before, September 28, 2013*	Disbursement Limits for Case Numbers Issued on, or After, September 30, 2013*
	<i>Note:</i> September 29, 2013 is a Sunday and FHA Connection will not be available.	<i>Note:</i> September 29, 2013 is a Sunday and FHA Connection will not be available.
Initial Disbursement Limit	100% of Principal Limit	<p>Applicable To All Six Payment Options</p> <p>The greater of:</p> <ul style="list-style-type: none"> • sixty percent (60%) of the Principal Limit; or • the sum of Mandatory Obligations <i>plus</i> ten percent (10%) of the Principal Limit. <p>Disbursements must not exceed the combined total of Mandatory Obligations plus 10% and cannot exceed the Principal Limit amount established at loan closing.</p>

¹ Mortgagors are subject to the prepayment requirements specified under the “Borrower’s Right to Prepay” found in the HECM Note.

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Initial Disbursement Limits

**Disbursement
Timeframe
Examples**
(continued)

Disbursement Time Frame	Disbursements Timeframes	
	Disbursement Limits for Case Numbers Issued on, or Before, September 28, 2013	Disbursement Limits for Case Numbers Issued on, or After, September 30, 2013
Subsequent disbursements after loan closing and within first 12 months of loan closing	100% of Principal Limit	Term, Tenure, LOC, Modified Term, Modified Tenure Payment Options The greater of: <ul style="list-style-type: none"> • sixty percent (60%) of the Principal Limit; or • the sum of Mandatory Obligations <i>plus</i> ten percent (10%) of the Principal Limit. Disbursements must not exceed Net Principal Limit or Principal Limit.
		Single Disbursement Lump Sum Payment Option Not Available

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Initial Disbursement Limits

Disbursement
Timeframe
Examples
(continued)

Disbursement Timeframe	Disbursements Timeframes	
	Disbursement Time Frame	Disbursement Limits for Case Numbers Issued on, or Before, September 28, 2013
Subsequent disbursements after first 12 months of loan closing	100% of Principal Limit	Term, Tenure, LOC, Modified Term, Modified Tenure Payment Options 100% of available Principal Limit. Includes the portion of the Principal Limit that was unavailable during the First 12-Month Disbursement Period, plus the unused portion of the Net Principal Limit.
		Single Disbursement Lump Sum Payment Option Not Available

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Initial Disbursement Limits

**Mandatory
Obligations for
Traditional and
Refinance
Transactions**

Mandatory Obligations include:

- initial MIP;
- loan origination fee;
- HECM counseling;
- 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 the mortgagor;
 - title examination;
 - mortgagee's title insurance;
 - fees paid to an appraiser for the initial appraisal of the property
- 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;
- funds to pay contractors who performed repairs as a condition of closing, in accordance with standard FHA requirements for repairs required by appraiser; and
- other charges as authorized by the Secretary.

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Initial Disbursement Limits

Mandatory Obligations for Purchase Transactions

Mandatory Obligations include:

- initial MIP;
- loan origination fee;
- HECM counseling;
- 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 the mortgagor;
 - title examination;
 - mortgagee's title insurance;
 - fees paid to an appraiser for the initial appraisal of the property
- delinquent Federal debt;
- fees and charges for real estate purchase contracts, warranties, inspections, surveys, engineer certifications; and
- other charges as authorized by the Secretary.

Mortgagees have the added responsibility for ensuring the indebtedness of purchasing a new principal residence can be satisfied at closing and existing purchase program requirements, such as funding sources, monetary investment, gap financing, etc., as defined in Mortgagee Letter 2009-11 are met.

Disbursements Included in the First 12-Month Disbursement Limit and Initial MIP Calculations

The following items must be included in the First 12-Month Disbursement Limit and initial MIP calculations:

- Disbursement to Mortgagor made at loan closing;
 - The amount of Mandatory Obligations;
 - Repair Set Aside;
 - Tax payments required by the Mortgagee, or requested by the Mortgagor, to be paid at closing (It is common practice for Mortgagees to require that taxes coming due within a certain amount of time, such as 30-45 days following closing, be paid at closing);
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Initial Disbursement Limits

**Disbursements
Included in the
First 12-Month
Disbursement
Limit and
Initial MIP
Calculations**
(continued)

- Tax and Insurance Payments scheduled for payment from the Property Charge Set Aside or from HECM proceeds within the First 12-Month Disbursement Period. Mortgagees must use the actual insurance premium and actual tax amount. If a new tax bill has not been issued, the mortgagee must use the prior year's amount multiplied by 1.2%.
- The amount of the additional 10% of the Principal Limit that the mortgagor has elected to have available (not taken at loan closing).

Important: The Servicing Fee Set Aside is not included in the First 12-Month Disbursement Limit or the initial MIP calculation.

Note: The combination of Mandatory Obligations and required disbursements described in this section which occur over the First 12-Month Disbursement Period will reduce the amount of funds available to the mortgagor during this period. The disbursements described in this section must also be taken into account when calculating the initial MIP (see page 20 for information on how to calculate the initial MIP).

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Mortgage Insurance Premiums and Principal Limit Factors

Overview

Consistent with existing authority, as described in Mortgagee Letter 2010-34, this section of the Mortgagee Letter announces changes to the initial Mortgage Insurance Premium (MIP) pricing options and changes to the Principal Limit Factor Tables used to determine the amount of mortgage proceeds that will be made available to mortgagors.

Effective for all case number assignments on or after September 30, 2013, HECM Standard and HECM Saver initial mortgage insurance pricing options will no longer be available.

Initial and Annual Mortgage Insurance Premium Structure

HUD will charge an initial MIP of 0.50 percent (0.50%) of the Maximum Claim Amount (MCA) when the sum of the mortgagor's initial disbursement at closing and other required or available disbursements during the First 12-Month Disbursement Period is 60% or less of the Principal Limit.

HUD will charge an initial MIP of 2.50 percent (2.50%) of the MCA when a mortgagor's initial disbursement at closing and other required or available disbursements during the First 12-Month Disbursement Period are greater than 60% of the available Principal Limit.

To calculate initial MIP, mortgagees must first calculate the "Disbursements Included in the First 12-Month Disbursement Limit" as defined on pages 18 and 19 of this Mortgage Letter.

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Mortgage Insurance Premiums and Principal Limit Factors

Initial and Annual Mortgage Insurance Premium Structure
(continued)

Where the mortgagor elects to take an initial disbursement of 60% or less and HUD charges an initial MIP of 0.50%, the sum of the initial disbursement at loan closing and any additional disbursements during the First 12-Month Disbursement Period must not exceed 60% of the Principal Limit.

When the mortgagor is eligible for the additional 10% of the Principal Limit during the First 12-Month Disbursement Period, the mortgagor must decide, before loan closing, what amount of the additional 10% they want. The mortgagor must notify the mortgagee of their decision and, if the mortgagor elects not to receive a portion of the funds, the mortgagee must not make such funds available at loan closing or during the First 12-Month Disbursement Period. The mortgagee must calculate the initial MIP, which is to be remitted to HUD, based on the amount of funds the mortgagor has elected to be made available during the First 12-Month Disbursement Period.

The existing annual MIP rate of 1.25% will continue to be in effect for all HECMs.

Initial Disbursement at Closing and During the First 12-Month Disbursement Period	Initial MIP	Annual MIP
Amounts of 60 Percent or less of the Principal Limit	0.50 Percent	1.25 Percent
Amounts greater than 60 Percent of the Principal Limit	2.50 Percent	1.25 Percent

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Mortgage Insurance Premiums and Principal Limit Factors

Initial and Annual Mortgage Insurance Premium Structure
(continued)

General MIP Example 1:

- Maximum Claim Amount: \$200,000
- Principal Limit: \$100,000
- 60% of the Principal Limit: \$60,000
- Mandatory Obligations: \$20,000
- Repair Set Aside: \$0
- Cash to Mortgagor at Loan Closing: \$20,000
- Initial Disbursement Limit Amount: \$60,000
- Disbursement Amount at Loan Closing: \$40,000, includes cash to mortgagor and Mandatory Obligations
- Initial MIP: \$1,000 (The initial MIP calculation is 0.50% of MCA)

Note: If Mortgagor does not take cash at loan closing, the sum of additional draws during the First12-Month Disbursement Period may not exceed \$40,000 because HUD charged an initial MIP of 0.50%.

General MIP Example 2:

- Maximum Claim Amount: \$200,000
- Principal Limit: \$100,000
- 60% of the Principal Limit: \$60,000
- Repair Set Aside: \$1,000
- Mandatory Obligations: \$70,000
- 10% of the Principal Limit: \$10,000
- Cash to Mortgagor at Loan Closing: \$9,000
- Initial Disbursement Limit Amount: \$80,000
- Disbursement Amount at Loan Closing: \$80,000, includes cash to mortgagor, the Repair Set Aside and Mandatory Obligations
- Initial MIP: \$5,000 (The initial MIP calculation is 2.50% of MCA)

Continued on next page

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Mortgage Insurance Premiums and Principal Limit Factors

Initial and Annual Mortgage Insurance Premium Structure
(continued)

General MIP Example 3:

- Maximum Claim Amount: \$200,000
- Principal Limit: \$100,000
- 60% of the Principal Limit: \$60,000
- Mandatory Obligations: \$59,000
- Repair Set Aside: \$0
- 10% of the Principal Limit: \$10,000 (Mortgagor opts to limit to 1% to stay within 60% of Principal Limit)
- Cash to Mortgagor at Loan Closing: \$1,000
- Initial Disbursement Limit Amount: \$60,000
- Disbursement Amount at Loan Closing: \$60,000, includes cash to mortgagor and Mandatory Obligations
- Initial MIP: \$1,000 (The initial MIP calculation is 0.50% of MCA)

Note: If Mortgagor had opted to take the full 10% of Principal Limit of \$10,000 at loan close or have it available for disbursement during the First 12-Month Disbursement Period, the total Initial Disbursement Limit Amount during First 12-Month Disbursement Period would total \$69,000 and the initial MIP would have been 2.50% (\$5,000)

General MIP Example 4:

- Maximum Claim Amount: \$200,000
- Principal Limit: \$100,000
- 60% of the Principal Limit: \$60,000
- Mandatory Obligations: \$51,000
- Repair Set Aside: \$0
- 10% of the Principal Limit: \$10,000
- Cash to Mortgagor at Loan Closing: \$10,000
- Initial Disbursement Limit Amount: \$61,000
- Disbursement Amount at Loan Closing: \$61,000, includes cash to mortgagor and Mandatory Obligations
- Initial MIP: \$5,000 (The initial MIP calculation is 2.50% of MCA)

Note: If the mortgagor limited the initial disbursement to \$60,000 (cash to the mortgagor of \$9,000 instead of \$10,000), HUD would charge an initial MIP of 0.50%)

Continued on next page

Mortgagee Letter 2013-27

Mortgage Insurance Premiums and Principal Limit Factors

Initial MIP Calculation for Refinance Transactions

For all refinance transactions, mortgagees and counselors must use the formula below to determine the amount of initial MIP due to HUD.

Formula:

- (1) New MCA multiplied by *new initial MIP (%) = New MIP
- (2) Old MCA multiplied by old initial MIP (%) = Old MIP
- (3) Subtracting the result of (2) from the result of (1) yields the MIP amount owed to HUD

** The new initial MIP percent (%) is determined by the mortgagor's initial disbursement of the 60% principal limit threshold at closing. If New MCA is less than the Old MCA, the amount owed can be greater than zero or if New MIP less the Old MIP is a negative number, the amount owed is zero.*

Refinance MIP Example 1: From HECM Saver to NEW MIP with an Initial Disbursement \leq 60% PL

- New MIP: $\$480,000 \times 0.50\% = \$2,400$
- Old MIP: $\$400,000 \times 0.01\% = \40
- Initial MIP Amount Owed to HUD: $\$2,360$

Refinance MIP Example 2: From HECM Saver to NEW MIP with an Initial Disbursement $>$ 60% PL

- New MIP: $\$400,000 \times 2.50\% = \$10,000$
- Old MIP: $\$480,000 \times 0.01\% = \48
- Initial MIP Amount Owed to HUD: $\$9,952$

Note: If New MCA is less than the Old MCA, the amount owed can be greater than zero

Refinance MIP Example 3: From HECM Standard to NEW MIP with an Initial Disbursement \leq 60% PL

- New MIP: $\$480,000 \times .0.50\% = \$2,400$
- Old MIP: $\$400,000 \times 2\% = \$8,000$
- Initial MIP Amount Owed to HUD: $\$0$

Note: If New MIP less the Old MIP is a negative number, the amount owed is zero

Refinance MIP Example 4: From HECM Standard to NEW MIP with an Initial Disbursement $>$ 60% PL

- New MIP: $\$480,000 \times 2.50\% = \$12,000$
- Old MIP: $\$400,000 \times 2\% = \$8,000$
- Initial MIP Amount Owed to HUD: $\$4,000$

Continued on next page

Mortgagee Letter 2013-27

Mortgage Insurance Premiums and Principal Limit Factors

**Initial MIP
Calculation for
Refinance
Transactions
(continued)**

Refinance MIP Example 5: NEW MIP to NEW MIP with an Initial Disbursement <= 60% PL

- New MIP: \$480,000 x 0.50% = \$2,400
- Old MIP: \$400,000 x 0.50% = \$2,000
- Initial MIP Amount Owed to HUD: \$400

Refinance MIP Example 6: NEW MIP to NEW MIP with an Initial Disbursement <= 60% PL

- New MIP: \$480,000 x 0.50% = \$2,400
- Old MIP: \$480,000 x 2.50% = \$12,000
- Initial MIP Amount Owed to HUD: \$0

Note: If New MIP less the Old MIP is a negative number, the amount owed is zero

Refinance MIP Example 7: NEW MIP to NEW MIP with an Initial Disbursement > 60% PL

- New MIP: \$480,000 x 2.50% = \$12,000
- Old MIP: \$400,000 x 2.5% = \$10,000
- Initial MIP Amount Owed to HUD: \$2,000

Refinance MIP Example 8: NEW MIP to NEW MIP with an Initial Disbursement > 60% PL

- New MIP: \$480,000 x 2.50% = \$12,000
 - Old MIP: \$400,000 x .50% = \$2,000
 - Initial MIP Amount Owed to HUD: \$10,000
-

**Applicability to
Payment Plan
Options and
Transaction
Types**

The initial MIP changes are applicable to all interest rate indices and payment plan options.

Continue on next page

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Mortgage Insurance Premiums and Principal Limit Factors

**New Principal
Limit Factor
(PLF) Table**

Entities responsible for educating and informing prospective mortgagors about FHA's HECM program requirements must use the new PLF table to calculate Principal Limit to disclose the amount of mortgage proceeds that will be available. Mortgagees will base the initial MIP and the Initial Disbursement Limit on the calculated Principal Limit amount.

The new PLF table may be uploaded or copied from HUD's web site directly into any reverse mortgage technology system or tool used to support the HECM program. The new PLF tables are accessible from the following web site: <http://www.hud.gov/offices/hsg/sfh/hecm/hecmhomelenders.cfm>

FHA will release Version 2.0 of the HECM Calculation Software to accommodate the new PLF table on September 30, 2013.

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Mortgage Insurance Premiums and Principal Limit Factors

**FHA
Connection
Case Number
Assignment
Screen Changes**

To accommodate the changes to the initial MIP, mortgagees must use the following ADP codes on or after September 30, 2013:

ADP Description	ADP Codes
HECM Fixed	961
HECM ARM	962
HECM Condominium/Fixed	967
HECM Condominium/ARM	968

Important: HECM Standard and HECM Saver ADP codes will no longer be available in FHA Connection after September 28, 2013.

**HECM
Standard
Adjustable
Interest Rate
Pipeline Loans**

All mortgages that have an initial MIP designation of HECM Standard or HECM Saver and were assigned a FHA case number on or before September 28, 2013, may be processed as either a HECM Standard or HECM Saver initial MIP option; but only if these mortgages close on or before December 31, 2013.

Mortgagees should be sure that all mortgages currently in their pipeline or that will be added to their portfolio on or before September 28, 2013, reflect the proper ADP code. Once this Mortgagee Letter goes into effect HUD will not allow HECM Saver and HECM Standard ADP Code changes.

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Mortgagee Letter 2013 –27

Credit Standing and Financial Assessment

Overview

An increasing number of tax and hazard insurance defaults by mortgagors have heightened the need for a financial assessment of a potential mortgagor's financial capacity and willingness to comply with mortgage provisions. Effective January 13, 2014, mortgagees must complete a financial assessment of all prospective mortgagors prior to loan approval and loan closing.

The purpose of the financial assessment is to evaluate the mortgagors' willingness and capacity to meet their financial obligations, and their ability to comply with the mortgage requirements. The financial assessment is also used to determine whether, and under what conditions, the prospective mortgagor meets FHA eligibility criteria.

Financial Assessment of Mortgagors

Mortgagees must perform a financial assessment of all prospective mortgagors on all HECM transaction types, i.e., traditional, refinance, and purchase.

Key components of underwriting HECM transactions include a credit history analysis, a cash flow/residual income analysis, analyzing compensating factors and extenuating circumstances and determining if the HECM applicant is eligible for the loan. Mortgagees must refer to Mortgagee Letter 2013-28, HECM Financial Assessment and Property Charge Guide for specific guidance on:

- performing the credit history analysis, 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 if funding source for property charges from HECM proceeds will be required; and
- completing a HECM Financial Assessment Worksheet – See Appendix 1 of the *HECM Financial Assessment and Property Charge Guide* for a model worksheet.

Note: For purchase transactions, mortgagees are responsible for ensuring compliance with financial assessment standards contained in this Mortgagee Letter and purchase program requirements found in Mortgagee Letter 2009-11.

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Mortgagee Letter 2013–27

Credit Standing and Financial Assessment

Verification Requirements and Documentation Standards for Financial Assessment

Mortgagees must rely on the policy guidance in this Mortgagee Letter and the *HECM Financial Assessment and Property Charge Guide* to complete the financial assessment required for prospective mortgagors as a condition of mortgage approval. In general, underwriters may rely upon the guidance provided in HUD Handbook 4155.1, *Mortgage Credit Analysis for Mortgage Insurance for One-to-Four Unit Mortgages* at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg/4155.1 for documenting and verifying credit history, income, assets and obligations.

A detailed *Matrix* of how to map the requirements of the *HECM Financial Assessment and Property Charge Guide* to HUD Handbook 4155.1 and HUD Handbook 4235.1 REV-1 is included in the Guide.

DE Underwriter Responsibility

The HECM financial assessment must be approved by a Direct Endorsement (DE) Underwriter registered in FHA Connection by the underwriting mortgagee.

Use of FHA's TOTAL Scorecard

The use of FHA's Total Scorecard for HECM financial assessments is not permitted. The FHA TOTAL Scorecard is designed to evaluate the creditworthiness of Forward Mortgages only.

Non-Discrimination in Performing Financial Assessments

The financial assessment must be conducted in a uniform manner that shall not discriminate because of race, color, religion, sex, age, national origin, familial status, disability, marital status, actual or perceived sexual orientation, gender identity, source of income of the mortgagor, or location of the property.

Continued on next page

Mortgagee Letter 2013–27

Credit Standing and Financial Assessment

Property Analysis

Mortgagees must follow existing policy with regard to the property analysis for HECMs; including a determination of the need for any set asides to complete required repairs. Where a repair set aside is required, the DE Underwriter must factor the impact of this set aside into their financial assessment.

Reminder: Mortgagees may use public records and data bases, in addition to the current practice of ordering a title search and reviewing the appraisal, to determine whether the property is freely marketable.

Resource: Refer to HUD Handbook 4235.1 REV-1, Chapter 3 and Mortgagee Letter 2005-48 for more information on property analysis for HECMs.

Credit History Analysis

The credit history analysis includes:

- In-depth review of all components of the mortgagor’s credit report to evaluate mortgagor debts, obligations and payment history to determine if they have a satisfactory credit history that demonstrates ability to manage finances and credit.
 - Identify debts/obligations that must be included in the residual income analysis.
 - Determine if mortgagor has a demonstrated history of timely payments of property taxes.
 - Determine if mortgagor has maintained property and flood insurance on the subject property.
-

Credit Report

Paragraph 4-8B of HUD’s Handbook 4235.1 REV-1, requires mortgagees to obtain a three repository (tri-merged) credit report for all prospective mortgagors and a credit report for a non-borrowing spouse when the subject property is located in a community property state. Under this existing guidance, mortgagees are required to review credit reports to:

- check for any claims or delinquent/defaulted debts owed to the Federal government; and
 - check for any unpaid liens against the property resulting from a State or court-ordered judgment.
-

Continued on next page

Mortgagee Letter 2013–27

Credit Standing and Financial Assessment

Credit Report
(continued) These requirements are expanded through this Mortgagee Letter to include a full assessment of the mortgagor’s credit history. Mortgagees must also use the Credit History Analysis policy guidance found in the *HECM Financial Assessment and Property Charge Guide*.

Cash Flow and Residual Income Analysis Qualifying ratios are not calculated for HECMs. The financial assessment is focused on assessing the mortgagor’s cash flow (income and expenses) and residual income to determine if they have the capacity to meet their obligations under the mortgage and to meet their living expenses. Mortgagees must use Cash Flow and Residual Income policy guidance found in the *HECM Financial Assessment and Property Charge Guide*.

This financial assessment includes traditional income sources used in Forward Mortgage income analysis plus, as applicable, imputed income/asset dissipation from all liquid assets which are defined as assets that can be converted to cash within one-year without payment of an IRS penalty.

Expenses used in the cash flow analysis include Federal and State Income Taxes, FICA, property charges, utility and maintenance charges, installment, revolving, mortgage related payments to assess overall relationship between cash flow available to the mortgagor and regular expenses and any other regularly occurring obligation as may be applicable, such as alimony and rental losses on other real estate owned.

The results of this analysis will reflect the mortgagor’s residual income and will be used in conjunction with the credit analysis to determine their capacity to meet their obligations.

The financial assessment also includes careful evaluation of extenuating circumstances and compensating factors, including assessing whether the HECM positively impacts the mortgagor’s financial capacity. Mortgagees must use Extenuating Circumstances policy guidance found in the *HECM Financial Assessment and Property Charge Guide*.

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Mortgagee Letter 2013–27

Financial Assessment Property Charge Funding Requirements

Overview This section of the Mortgagee Letter introduces two options for mortgagees to require the use of HECM proceeds to pay the following property charges (Property Taxes and assessments, Hazard and Flood Insurance) – a Lifetime Expectancy Set-Aside (LE Set-Aside) and a mortgagor authorization for the mortgagee to pay property charges from HECM monthly payments or Line of Credit as they come due. All other property charges (see section below) must be paid directly by the HECM Mortgagee.

Effective January 13, 2014, mortgagees are required to use one of these options as a condition of the loan approval for mortgagors who do not meet requirements defined for residual income, credit history and/or compensating factors and extenuating circumstances as defined in this Mortgagee Letter and the *HECM Financial Assessment and Property Charge Guide*. These options will be available to mortgagors who want to take advantage of these options even if it was not a requirement of the mortgagee.

Mortgagor Requirements As a condition of the mortgage, mortgagors must:

- pay property charges defined in the following section;
- keep the property in good repair; and
- maintain insurance coverage for the life of the loan, i.e., insures all improvements on the property against any hazards, casualties, and contingencies, including fire and flood.

Definition of Property Charges Property charges that are obligations of the Mortgagor are defined as property taxes, hazard insurance premiums, any applicable flood insurance premiums, ground rents, condominium fees, planned unit development fees, homeowners association fees, and any other special assessments that may be levied by Municipalities or State law.

Property Charges for Which Funding Requirements Apply Where the mortgagee determines, based on the results of the financial assessment, that one of the property charge funding options is required, only property taxes, hazard insurance and flood insurance are to be included in the LE Set-Aside.

Mortgagors are responsible for paying all other property charges that are not included in the LE Set-Aside.

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Financial Assessment Property Charge Funding Requirements

Funding Requirements for Payment of Property Charges

If the mortgagee does not require a LE Set-Aside or withholding of the mortgage proceeds for purposes of paying property charges based on results of the financial assessment, the mortgagor can:

- elect to have the LE Set Aside (see page 34 for additional information on the LE Set-Aside); or
- elect to have mortgagee pay such charges in accordance with existing requirements at § 206.205; or
- elect to be responsible for payment of the property charges.

Funding Requirements for Payment of Property Charges (continued)

The following table compares current options available for the payment of the property charges with the options that will be available when this Mortgagee Letter goes in to effect:

Three Options	Case Number Issued On or Before January 11, 2014	Case Number Issued On or After January 13, 2014
<p>Life Expectancy Set-Aside (LE Set Aside) of principal limit for payment of property charges*</p> <p>*Real estate taxes, hazard insurance and flood insurance only.</p>	Not Available	<ul style="list-style-type: none"> • Mortgagee requires based on financial assessment results • Mortgagor cannot cancel if required as a condition of the mortgage. • Mortgagor may voluntarily select if not required by the mortgagee and can cancel at their request.
<p>Mortgagee pays property charges* through disbursements from the line of credit or by withholding from monthly disbursements (Mortgage Proceeds)</p> <p>*Real estate taxes, hazard insurance and flood insurance only.</p>	<ul style="list-style-type: none"> • Voluntary, at mortgagor's request. • Mortgagor can cancel at any time. 	<ul style="list-style-type: none"> • Mortgagee requires based on financial assessment results • Mortgagor cannot cancel if required as a condition of the mortgage. • Mortgagor may voluntarily select if not required by the mortgagee and can cancel at their request.

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Financial Assessment Property Charge Funding Requirements

Funding Requirements for Payment of Property Charges (continued)

Three Options	Case Number Issued On or Before January 11, 2014	Case Number Issued On or After January 13, 2014
Mortgagor responsible for payment of property charges	<ul style="list-style-type: none"> Mortgagor's decision 	<ul style="list-style-type: none"> Where the mortgagee does not require a LE Set-Aside or mortgage proceeds, based on the results of the financial assessment, the mortgagor may select this option and can cancel at their request.

Funding Requirements for Property Charges using a Life Expectancy Set-Aside

Where the mortgagee requires a Life Expectancy (LE) Set-Aside of the principal limit for property charges, based on the results of the financial assessment (or a mortgagor selects this option), the amount of the LE Set-Aside shall be calculated based on the summation of the current tax and hazard and flood insurance property charges, adjusted annually by 1.20% to reflect anticipated increases over the term of the HECM, the expected rate, and the life expectancy from the Total Annual Loan Cost (TALC).

Note: Mortgagees must refer to the attached HECM Financial Assessment Reference Guide for the LE Set-Aside formula that is to be used to establish this account.

Continued on next page

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Financial Assessment Property Charge Funding Requirements

Funding Requirements for Property Charges using a Life Expectancy Set-Aside
(continued)

Mortgagees must inform mortgagors of the following:

- That the amount of funds in the LE Set-Aside is based on the estimated life expectancy of the youngest mortgagor and may be insufficient to cover property charges for the full length of that specified amount of time.
- That the mortgagor is responsible for the payment of property charges when funds in the LE Set-Aside account are insufficient or no longer available.

If the LE Set-Aside funds are insufficient or no longer available and the mortgagor fails to make the property charge payment in a timely manner, mortgagees must make the property charge payment and charge the mortgagor's account.

Life Expectancy Set-Asides and Withholding of Mortgage Proceeds for Property Charge Payments

When servicing HECMs for which property charges are paid through (1) Life Expectancy Set-Asides of the principal limit, (2) withholding from monthly disbursements, or (3) charges to the line of credit, mortgagees are responsible for ensuring that:

- payments are disbursed before bills become delinquent;
- early payments are made to take advantage of a discount (whenever it is to the mortgagor's benefit);
- funds required under an LE Set-Aside or withheld from the mortgagor's proceeds for the mortgagee to pay property charges, are not to be held in an escrow account;
- payments for property charges are added to the mortgage balance only when the mortgagee issues payment from the LE Set-Aside or from mortgage proceeds; and

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Financial Assessment Property Charge Funding Requirements

Life Expectancy Set-Asides and Withholding of Mortgage Proceeds for Property Charge Payments
(continued)

- the amount withheld from monthly disbursements is adjusted, after performing an annual analysis, to ensure that sufficient funds are available to make the anticipated disbursements for property charges during the coming year.
 - Any surplus is to remain in the LE Set-Aside to be applied to subsequent years' property charges.
 - Any shortage is to be corrected by increasing the monthly withholding from Term or Tenure payments to the mortgagor. The mortgagor shall be given at least a ten-day notice of the adjustment in the withholding and an adequate explanation of the reasons for any change.
 - Mortgagees must provide notice to the mortgagor within ten days of completion when the analysis indicates funds will be insufficient to pay subsequent years' of property charges.
-

Insufficient Funds in a Life Expectancy Set-Aside

The mortgagor is responsible for the payment of property charges when the funds in the LE Set-Aside account are insufficient or no longer available. The mortgagee must notify the mortgagor that the LE Set-Aside has been exhausted and the mortgagor is responsible for making future property charge payments.

If the mortgagor fails to make the payments:

- the mortgagee must make the property charge payment and charge the mortgagor's account.
 - the mortgagee may establish procedures to pay the future property charges from the mortgagor's available principal limit if a pattern of missed payments occurs.
-

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Mortgagee Letter 2013–27

Financial Assessment Property Charge Funding Requirements

Insufficient Funds in a Life Expectancy Set-Aside
(continued)

If the mortgagor fails to make the payments after the LE Set-Aside is exhausted, the mortgagee must advance its own corporate funds to pay the property charges. FHA then reimburses the mortgagee as part of the mortgage insurance claim, within the established limits.

Within 30 days of the first missed property charge and there are no remaining LE Set-Aside funds or mortgage proceeds from which the mortgagee may make payment, the mortgagee must:

- inform HUD and the mortgagor that an obligation of the mortgage has not been performed;
- offer loss mitigation options to allow the mortgagor to bring the mortgage into compliance.

The notice to the mortgagor must:

- provide a 30-day period for the mortgagor to respond and arrange to bring the mortgage into compliance;
- encourage the mortgagor to seek assistance from a HUD-approved counseling agency to receive free assistance in exploring viable alternatives to comply with the terms of the mortgage; and
- provide a list of loss mitigation options that may be available to the mortgagor to bring the mortgage into compliance, including, at a minimum:
 - establishing a repayment plan, not to exceed a period established by the Secretary,
 - pursuing refinance of the HECM to a new HECM if there is sufficient equity to pay off the existing mortgage and bring the property charges current, and
 - performing additional loss mitigation as may be required by the Secretary through notice.

As part of any due and payable request made for the mortgagor's failure to pay property charges, the mortgagee must include documentation of their efforts to contact and make arrangements with the mortgagor as required by the Secretary. HUD may require a mortgagee to continue loss mitigation efforts if HUD determines that the documentation provided does not demonstrate a good faith effort to resolve the mortgagor's failure to pay the property charges.

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Mortgagee Letter 2013–27

Financial Assessment Property Charge Funding Requirements

Funding Requirement for Property Charges using Mortgage Proceeds

If the mortgagee determines that property charges must be funded through HECM proceeds based on the results of the financial assessment (or a mortgagor selects this option), mortgagees shall follow existing policy guidance found in § 206.205 and Handbook 4330.1 Chapter 13. The mortgagor cannot cancel this arrangement if required as a condition of the mortgage.

Assignment of Mortgage to the Secretary

If the insured first mortgage is assigned to the Secretary, or if payments are made through the second mortgage under the Demand Assignment process, the Secretary is not required to assume responsibility for property charge payments, but may do so depending on the mortgagor's funding method.

- The Secretary may continue to administer payments for property charges for mortgagors with required methods of payment based on the results of the financial assessment.
 - The Secretary may not assume responsibility for property charge payments for mortgagors who do not have required methods of payment based on the results of the financial assessment, despite the mortgagor's election.
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Questions Please address any questions about the topics addressed in this Mortgagee Letter to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Information Relay Service at 1-800-877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers

Information Collection Requirements The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 944.U.S.C. 3501-3502. Approval of the HECM Program is covered by OMB Control Numbers 2502-0059. An Agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a valid control number.

Signature Carol J. Galante
Assistant Secretary for Housing-Federal Housing Commissioner
