

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,

A. Justification:

1. Section 255 of the Housing and Community Development Act of 1987 (P.L. 100-242, 2/5/88) established a Federal Mortgage Insurance Program, Section 255 of the National Housing Act, to insure Home Equity Conversion Mortgages (HECMs). 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.

Regulations codified at 24 CFR 206.1 through 206.301 detail the requirements pertinent to HUD's HECM program. HUD was granted authority in the Reverse Mortgage Stabilization Act of 2013 to amend FHA's HECM program regulations and requirements. On September 12, 2013, HUD published Federal Register Notice *Changes to the Home Equity Conversion Mortgage: Financial Assessment Solicitation of Comment Docket No. FR-5735-N01* requesting comments on the new financial assessments and funding requirements for the payment of property charges that was announced in Mortgagee Letters 2013-27 and 2013-28. After reviewing comments received in response to the Notice, HUD revised its requirements of the payment of property charges and the financial assessment and issued MLs 2014-xx and 2014-xx with revised guidance. In addition, HUD used the authority granted in the Act to amend the FHA regulations and requirements regarding the due and payable status where there is a non-borrowing spouse at the time of loan closing by issuing guidance in ML 2014-xx. HUD intends to publish a rule for notice and comment that will revise its existing regulations to codify these revisions.

2. The respondents are approximately 1100 HECM lenders. HUD estimates that lenders will receive approximately 100,000 new HECM loan applications for review and approval.

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)) and f) the conditions under which a non-borrowing spouse is permitted to stay in the home after the death (or move to a health care facility) of the borrower. 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) and non-borrowing spouses, 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). HUD has revised the form to include information regarding non-borrowing spouses. With this submission, HUD requests burden hours of 1.0 hours per counselor for the counselor session.

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). HUD's guidance from Mortgagee Letter 2014-xx requires that borrowers must state whether or not they are legally married at the time of initial application and confirm this information at closing. Mortgagees must obtain and verify the name and age of any Non-Borrowing Spouse. Currently, the borrower completes the Residential Loan Application for Reverse Mortgage (Fannie Mae Form 1009), as part of the application process. The Fannie Mae-Form 1009 is a standard business practice, and HUD requests no burden hours with this submission. HUD plans to change the 1009 application form in the future in order to make sections of the form consistent

with information collected in Fannie Mae Form 1003. The 1003 form is used for forward mortgages and collects detailed information about borrowers' liabilities and assets.

In addition, the borrower is required to provide other documents related to income, credit, 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 model loan documents lenders use in the HECM program. Copies of those samples are attached, and include the note, mortgage, agreement, and the repair rider. 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 issued guidance (Mortgagee Letters 2013-27, 2013-28, 2013-33, 2014-xx, 2014-xx and 2014-xx) identifying HECM program changes that will improve the fiscal soundness of the program. The Mortgagee Letters require 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. Mortgagee letter 2014-xx provided HECM lenders with a *HECM Financial and Property Charge Guide*. The Guide provides parameters for the required financial assessment that lenders must complete prior to approval of an FHA-insured HECM. Financial Assessment requirements include:

- Performing the credit history analysis;
- Performing the 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 sources for property changes from HECM proceeds will be required; and
- Completing a HECM financial assessment worksheet.

HUD requests burden hours per response of 1.25 hours for the financial assessment

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 also requires (ML 2014-xx) that lenders disclose that borrowers may make changes in the HECM payment options. 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 will disclose the total cost of the refinancing transaction based upon the mortgagee's estimate and provide the borrower with an estimate of the new principal limit amount. With this submission, HUD requests burden hours per response of .50 hours

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.

HUD provided guidance in Mortgagee Letter 2014-xx requiring that lenders, at closing, obtain signed certifications from borrowers and non-borrowing spouses. The certifications, which require no research on the part of borrowers and non-borrowers, outline the conditions under which the non-borrowing spouse may live in the home following the borrower's death or move to a health care facility. HUD requests no burden hours with this submission.

Endorsement

Lenders are required to submit case binders to HUD for review and endorsement. (OMB Information 2502-0059.) Mortgagee Letter 2014-xxx provided lenders with an updated list of required documents for endorsement. HUD requests no burden hours in this submission.

3. Vendors are currently supplying 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. The burden is the minimum and consistent with the statutory and regulatory requirements.
4. 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.
7. There are no special circumstances in the collection of this information.

8. The agency notice soliciting comments on the information collection for OMB #2502-0524 was published in the Federal Register on October 8, 2010 (Volume 75, Number 195, Page 62410). 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. No assurance of confidentiality is provided, nor is such appropriate or feasible.
11. No questions of sensitive nature are involved.
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
Lender conducts financial assessment	1100	Varies	100,000	1.25	125,000	\$22	\$2,750,000
HUD-92901	1100	Varies	40,000	.50	20,000	\$22	\$440,000
HUD-92902	850	Varies	100000	1.00	100000	\$15	\$
Consumer Measures Against Excessive Fees disclosure Provided by Lenders	1100	Varies	100,000	.16	16,000	\$22	\$352,000
Totals	1100		100,000	3.16	450,235		

The \$22.00 hourly rate reflects the cost to the lender for the origination 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. Changes to the HECM program, as outlined in Mortgagee Letters 2013-27, 2013-28, 2013-33, 2014-xx, 2014-xx and 2014-xx are included in this submission.. Guidance from the MLs may result in decreased loan volume. That is, in the short term, fewer HECM borrowers may be eligible because of lower principal limits, in general, and also when there is a non-borrowing spouse and increased credit underwriting. As a result, this revised submission reduces the total annual responses from 129,000 to 100,000. The previous information collection “Lender describes HECM Standard and HECM Saver MIP and factors” is no longer required as the two programs were eliminated, as outlined in Mortgagee Letter 2013-27. In addition, the collection “Request to establish PAD account” is no longer required.
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.