

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, HUD-92800.5b, HUD-92900-A, HUD-1, HUD-1a, Fannie Mae (FNMA)-1009, FNMA-1025, FNMA-1003, FNMA-1004, FNMA-1004c, FNMA-1073

A. Justification

1. This information collection seeks a revision of OMB clearance approval 2502-0524 that expires on 5/13/2017. On May 19, 2016, HUD published a Federal Register Notice (Docket No. FR-5353-F-04): Federal Housing Administration (FHA): Strengthening the Home Equity Conversion Mortgage (HECM) Program to amend 24 Code of Federal Regulations (CFR) Part 206 to codify existing policies that were implemented under the Housing and Economic Recovery Act of 2008, the Reverse Mortgage Stabilization Act of 2013, Public Law 111-22 and Public Law 111-229. HUD intends to publish a final rule that will include new policy changes, clarifications and updates to the regulatory text based on the comments received from the public. This submission includes origination requirements that are defined in the final rule. Revisions to the HECM servicing requirements are covered under OMB Collection 2502-0611.

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 (NHA), to insure HECMs. A HECM allows senior homeowners, age 62 and over, 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 206.308 detail the requirements pertinent to origination requirements for HUD's HECM program.

2. The respondents are approximately 1603 lenders. HUD estimates that lenders will receive approximately 80,000 new HECM loan applications for review and approval.

Counseling Requirements: There are approximately 850 HECM counselors. An eligibility requirement of the HECM program is to require prospective borrowers, non-borrowing spouses, and any non-borrowing owners with an interest in the mortgaged property to receive HECM counseling from a HECM Counselor that is employed by a participating agency (OMB Information Collection 2502-0573). HECM counseling may be completed prior to or after the lender takes initial loan application. The definition of HECM Counselor is the same as the statutory definition and means an independent third party that is currently active on FHA's HECM Counselor Roster and that is not, either directly or indirectly, associated with or compensated by, a party involved in originating, servicing, or funding the HECM, or the sale of annuities, investments, long-term car

insurance, or any other type of financial or insurance product. (Section 255(d) of NHA) (24 CFR 206.3)

In accordance with statutory and regulatory provisions, HECM Counselors are required to discuss the topics below: (Section 255(f) of the NHA) (24 CFR 206.41)

- 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, HECM purchase transaction, 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;
- 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 or in 24 CFR Part 206 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));
- 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 (24 CFR 206.55); and
- g) the terms and conditions for the mortgage becoming due and payable and deferral requirements for non-borrowing spouses who chose to remain in the home upon the death of the last surviving borrower.

At the conclusion of each counseling session, HECM counselors must complete a Certificate of HECM Counseling, form HUD-92902, and have the prospective HECM borrower, non-borrowing spouse, non-borrowing owner and others interested parties sign and date the form HUD-92902. 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 1.50 hours per counselor for the counseling 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 the Residential Loan Application for Reverse Mortgage (Fannie Mae Form 1009), as part of the application process and the HUD/VA Addendum to the Uniform Residential Loan Application, HUD 92900-A (also used for standard FHA loan

applications under OMB Information Collection 2502-0059). Borrowers must state whether or not they are legally married at the time of initial application and confirm this information at closing. In order to receive federal insurance benefits, lenders must obtain and verify the name, age and social security number of any borrower. Lenders are also required to obtain and verify the name and social security number of any non-borrowing spouse that is eligible for a deferral of the due and payable status upon the death of the last borrower. (24 CFR 206.33 and 206.40)

The use of 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. 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 underwrite the property's eligibility to determine conditions that must be addressed prior to closing by completing form HUD 92800.5b. This includes, but is not limited to, ensuring marketable title, identifying needed repairs, proper insurance, arrangements for Federal debts have been made, release of mechanic's liens, and reviewing existing debt structure. The form HUD-92800.5b is approved under OMB Control Number 2502-0494, and HUD requests no burden hours for underwriting in this submission.

HUD requires lenders to conduct and complete a financial assessment of applicants prior to approval of an FHA-insured HECM. The financial assessment allows the lender 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; determine the borrower's willingness and capacity to timely meet his or her financial obligations and comply with the mortgage requirements; and determine if the HECM will represent a sustainable solution to the borrower's financial circumstances. (24 CFR 206.37)

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 laws. 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 lenders to inform borrowers of all of the HECM products, features and options that FHA insures and that borrowers may make post closing changes to HECM payment options. HUD plans to create a model “product” disclosure form that can be used by the industry to disseminate the required information to the borrower. HUD requests no burden hours in this submission.

Seasoning Requirements

HUD restricts the payoff of non-existing HECM liens to liens that have been in place for a period that exceeds 12 months and liens that have been in place for less than 12 months where the borrower has received cash in an amount of \$500 or less. HUD will also

permit the pay-off of a Home Equity Line of Credit (HELOC) regardless of the timing or amount of the HELOC, as long as the pay-off amount does not exceed first year disbursement limits. (24 CFR 206.36) The lender must include documentation that supports the payoff of non-existing HECM liens and HELOCs that meets the aforementioned criteria, in the case binder. (OMB Information Collection 2502-0059) HUD requests no burden hours with 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. For each refinance HECM, the lender must complete 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 lender. The Anti-Churning form will disclose the total cost of the refinancing transaction based upon the lender'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 3170-0016). 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 and mortgagors. (OMB Information 2502-0059 and OMB Information Collection 3170-9915 and 3170-0016) HUD requests no burden hours in this submission.

At closing, lenders must obtain signed certifications from borrowers, non-borrowing spouses and non-borrowing owners. 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, serve as evidence to their consent for their spouse or other non-borrowing owner obtaining the HECM, and acknowledgement of that the property will serve as collateral for the HECM and the terms and conditions of the mortgage. Lenders must obtain documentation from the borrower when a new mortgage is originated and the borrower the existing insured mortgage is not satisfied prior to or at the closing of the new HECM. The documentation would be included in the case binder. (OMB Information Collection 2502-0059) 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 2014-21 includes a 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, Loan Agreement, and certifications required at closing. The HUD Website also allows lenders and counselors to download HUD forms. Automated technology is being used to submit the appraisal report (Fannie Mae forms 1004, 1004c, 1073, 1025) to HUD and for the 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. Explain any special circumstances requiring:
 - respondents to report information more than quarterly; a written response in fewer than 30 days; Respondents are required to submit case binders to HUD for review and endorsement, within 60 days of loan closing. OMB Information Collection 2502-0059 lists the required documents needed for HUD endorsement of the loan and the burden hours associated with this information collection. The frequency of this process is daily and necessary to protect the FHA insurance fund and the interests of consumers and potential borrowers.
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- more than an original and two copies of any document; Not applicable.
- respondents to retain records other than health, medical, government contract, grant-in-aid, or tax records for more than three years; Not applicable
- a statistical survey not designed to produce results that can be generalized to the universe of study; Not applicable
- the use of a statistical data classification that has not been reviewed and approved by OMB; Not applicable
- a pledge of confidentiality that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use; Not applicable
- respondents to submit proprietary trade secret, or other confidential information. Not applicable

8. The agency notice soliciting comments on the information collection for OMB #2502-0524 was published in the Federal Register on (Tuesday, November 22, 2016: Vol: 81, Number 225, Page 83862). No comments were received.

9. No gifts are paid to respondents.

10. No assurance of confidentiality is provided, nor is such appropriate or feasible.

11. Subsection 255(j) of the National Housing Act provides that a HECM that does not contain a "Safeguard to Prevent Displacement of Homeowner," which defers repayment of the loan obligation until "the homeowner's death, the sale of the home, or the occurrence of other events specified in the regulations of the Secretary," is ineligible for FHA insurance. Therefore, it is necessary for lenders to inquire and determine the marital status of prospective borrowers so that the insurance eligibility "Safeguard" requirement can be extended to any non-borrowing spouse.

12. Estimated public burden:

Information Collection	No. of Respondents	Frequency	Total Annual Responses	Hours Per Response	Total Annual Hours	Cost per Hour	Total Annual Cost
Lender Conducts Financial Assessment	1603	49.90	79,989.70	1.25	99987.12	\$63	\$6,299,189.56
HUD-92901	1603	24.95	39,994.85	0.5	19997.42	\$63	\$1,259,837.46
HUD-92902	850	94.11	79,993.50	1.5	119,990.25	\$25	\$2,999,756.25
Consumer Measures	1603	49.90	79,989.70	0.16	12,798.35	\$63	\$806,296.05
Totals	1,603		279,967.75	3.41	252,773.10		\$11,365,079.32

The estimated combined hourly rate of \$63.00 reflects the estimated cost for the origination of the mortgage.

The \$25.00 rate reflects the estimated cost paid to counselors for providing HECM counseling to prospective borrowers, non-borrowing spouses, and other non-borrowing owners.

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, 2014-07, 2014-21 and 2015-02, and codified in the final rule, are included in this submission. The issuance of the final rule will not impact loan volume, as many of the changes were implemented by Mortgagee Letters and included in the previous submission. The previous submission indicated a decreased loan volume as the result of the issuance of the aforementioned Mortgagee Letters. Thus, this revised submission further reduces the Total Annual Responses from 100,000 to 80,000.

There is an increased cost to participating agencies that provide HECM counseling to borrowers, non-borrowing spouses and non-borrowing owners as a result of program changes. This revised submission increases the Hours Per Response from 1.0 to 1.5 hours, the Total Annual Burden Hours from 100,000 to 120,000, and the Hourly Rate from \$22 to \$25. Similarly, this revised submission increases the Hourly Rate from \$22 to \$63 to originate the mortgage.

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.
