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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

DATE: **September 25, 2013**

TO: **ALL APPROVED MORTGAGEES**

MORTGAGEE LETTER 2013-33

Subject

Home Equity Conversion Mortgage Program's Mandatory Obligations, Life Expectancy Set-Aside Calculation, and Purchase Transactions

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Purpose

This Mortgagee Letter clarifies policy announced in Mortgagee Letter 2013-27. Additionally, this Mortgagee Letter makes technical corrections to Mortgagee Letter 2013-27.

Effective Date

The provisions in this Mortgagee Letter for pipeline loans on purchase transactions are effective **Immediately**. All other provisions of this Mortgagee Letter are effective as of September 30, 2013 the effective date of Mortgagee Letter 2013-27.

Affected Policies

The policies set forth in this Mortgagee Letter supplement and where they conflict replace Mortgagee Letter 2013-27. The following policies are affected:

- Mandatory Obligation definition;
- Mandatory Obligations for traditional and refinance transactions;
- Mandatory Obligations for purchase transactions;
- Disbursements Included in the First 12-Month Disbursement Limit and Initial MIP Calculations;
- Principal Limit future year increase calculation;
- Life Expectancy (LE) Set-Aside calculation;
- Purchase transaction pipeline loans; and
- Repayments from Insurance and Condemnation Proceeds.

Mandatory Obligation Definition

Fees and charges incurred in connection with the origination of the HECM that are paid at loan closing or for which provision is made at closing for the mortgagee to subsequently fund any disbursements during the First-12 Month Disbursement Period that are a condition or a requirement for loan approval or any disbursements for a Repair Set-Aside, including the cost of repairs and the repair administration fee.

Mandatory Obligations for Traditional and Refinance Transactions

In addition to those items announced in Mortgagee Letter 2013-27, Mandatory Obligations also include:

- Repair Set-Asides;
- Property Tax and Flood and Hazard Insurance Payments scheduled for payment from the Property Charge LE 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 1.04; and
- Property Tax, Flood and Hazard Insurance payments required by the Mortgagee to be paid at closing.

Mandatory Obligations for Purchase Transactions

In addition to those items announced in Mortgagee Letter 2013-27, Mandatory Obligations also include:

- Property Tax and Flood and Hazard Insurance Payments scheduled for payment from the Property Charge LE 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 1.04;
- Property Tax, Flood and Hazard Insurance payments required by the Mortgagee to be paid at closing; and
- The amount of the Principal that is advanced towards the purchase price of the subject property.

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:

- The amount of Mandatory Obligations;
- Disbursement to Mortgagor made at closing; and
- The amount of the Initial Disbursement Limit not taken by the Mortgagor at closing for Term, Tenure, Line of Credit, Modified Term and Modified Tenure Payment Options.

Principal Limit Future Year Increase Calculation

Mortgagee Letter 2013-27 stated that the Principal Limit shall continue to be calculated to increase by the Mortgage Note Interest Rate on a monthly basis. This was an unintentional error. The monthly increase to the Principal Limit must include the annual Mortgage Insurance rate as well as the Mortgage Note Interest Rate.

LE Set-Aside Calculation

Mortgagee Letter 2013-27 stated that the amount of the LE Set-Aside shall be calculated based on summation of the current tax and hazard and flood insurance property charges, adjusted annually by 1.20%. This was an unintentional error. For future property charge increases, the LE Set-Aside should be adjusted one time by multiplying the sum of the current tax and hazard and flood insurance by 1.2.

Purchase Transaction Pipeline Loans

FHA only permits a mortgagee to order a case number in FHA Connection for a mortgage on a property that has been issued a certificate of occupancy. However, to avoid any negative impact to any mortgagor who had previously entered into a bona fide sales contract and made an earnest money deposit on a property before the issuance of Mortgagee Letter 2013-27, FHA will allow mortgagees to request an FHA case number with an initial MIP designation of HECM Standard or HECM Saver where:

- The mortgagee requests the case number on or before September 28, 2013;
- The mortgagee obtains a copy of the mortgagor's bona fide sales contract and evidence of the earnest money deposit that were executed and paid by the mortgagor before September 3, 2013; and
- The mortgagee must ensure these mortgages close on or before March 31, 2014.

All other requirements remain applicable and the mortgagee must ensure the mortgage, the mortgagor, and the property meets all other FHA eligibility requirements.

Mortgagees must ensure that all purchase transaction mortgages that are pending on or before September 28, 2013 reflect the proper ADP code. HUD will not allow the mortgagee to change to the HECM Saver and HECM Standard ADP Codes after that date.

Repayments from Insurance and Condemnation Proceeds

Mortgagee Letter 2013-27 stated that the mortgagee must increase the available Principal Limit if the mortgagor makes a partial repayment. This general policy is correct; however, Mortgagee Letter 2013-27 unintentionally omitted an exception to this general policy. If the repayment is from insurance or condemnation proceeds, then the available Principal Limit shall be reduced by the amount of such proceeds.

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 (44 U.S.C. 3501-3520) and assigned an OMB control number of 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.
Questions	If you have questions regarding this Mortgagee Letter, please call 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 http://www.hud.gov/answers.
Signature	Carol J. Galante Assistant Secretary for Housing - Federal Housing Commissioner