CHAPTER 4. MORTGAGE CREDIT ANALYSIS

4-1 PURPOSE. This chapter explains the procedures for completing and processing the borrower's application and for qualifying the borrower.

4-2 BASIC UNDERWRITING ISSUES. The underwriting of a HECM differs from standard underwriting procedures in the following ways:

A. The borrower will not be required to pay closing costs in cash at closing, although he or she has the option to do so.

1) With the exception of the origination fee (see Section B below), the borrower is allowed to finance 100% of the closing costs.

2) All expenses that require payment at closing may be added to the outstanding balance. As a result, any future payments of the mortgage proceeds will be calculated from the net principal limit, as described in Chapter 5.

3) The lender may require that the borrower pay in cash for services performed by third parties related to the processing of the borrower's application (e.g. credit report, appraisal, title commitment, etc.). The borrower may request to be reimbursed for these expenses at closing, and have these costs added to the outstanding balance on the mortgage.

B. The lender will be permitted to charge an origination fee agreed upon between the borrower and the lender. This fee will cover expenses incurred in the processing and underwriting of the borrower's loan. However, the borrower will only be permitted to finance (i.e. add to the outstanding balance at or after closing) an origination fee of no greater than eighteen hundred dollars ($1,800.00). That amount, along with the fee charged for administering the Repair Rider (See Chapter 3, Paragraph 3-5B), can be added to the outstanding balance. Any portion of the origination fee that exceeds the financed amount must be paid in cash by the borrower at closing. A Verification of Deposit must be submitted as part of the required mortgage credit documentation for any portion of the loan origination fee that will be paid in cash.

C. The lender will not be permitted to charge discount points.

D. The options for adjustable rate mortgages (ARMs) differ from standard FHA-insured ARMs.

1) If the lender chooses to offer an ARM, it must offer an ARM that limits changes in the interest rate to a maximum of two percent (2%) per year and five percent (5%) over the life of the loan. The interest rate may be adjusted only once per year.

2) The lender may also offer an interest rate that is adjusted monthly. Under this option, the lender must establish a lifetime cap on rate adjustments, but is unrestricted in which cap is chosen.

E. The property need not be debt-free for the borrower to be eligible.

1) The indebtedness on an existing lien must be satisfied at closing or subordinated to the HECM mortgages.

2) If the borrower chooses to satisfy an existing lien, its total indebtedness must not be greater than the borrower's net principal limit at closing, unless the borrower has other financial resources from which to draw in order to satisfy the lien.

F. Instead of calculating a monthly principal and interest payment, a principal limit must be calculated to determine the payments that a borrower may receive. This method is explained in Chapter 5.

G. The borrower will not be required to establish an escrow account for the purpose of collecting annual payments for property taxes and hazard insurance. However, the borrower has the option of requiring that the lender pay taxes and hazard insurance premiums by withholding the necessary amounts from the borrower's payments or by withdrawing the required amounts from the borrower's line of credit. The funds to make these payments are added to the outstanding balance when the payments are actually made (see Paragraph 8-9).

4-3 MORTGAGE CREDIT ELIGIBILITY REQUIREMENTS. A borrower must be rejected for any of the following reasons:

A. Delinquent Federal debts. If the borrower is presently delinquent on any Federal debt (e.g., VA-guaranteed mortgage, HUD Section 312 Rehabilitation loan or Title I loan, Federal student loan, Small Business Administration loan, delinquent Federal taxes, etc.) or has a lien, including taxes, placed against his or her property for a debt owed to the United States, the borrower is not eligible until the delinquent account is brought current, paid or otherwise satisfied, or a satisfactory repayment plan is made between the borrower and the Federal agency owed and is verified in writing.

B.Suspensions and debarments. A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a HECM. The lender must examine HUD's "Limited Denial of Participation (LDP) List" and the government-wide General Services Administration's (GSA) "List of parties Excluded from Federal Procurement or Nonprocurement Programs." If the name of any party to the transaction appears on either list, the application is not eligible for mortgage insurance.

C.Credit Alert Interactive Voice Response System (CAIVRS). Lenders must screen all borrowers using CAIVRS. If CAIVRS indicates the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by HUD on his or her behalf, the borrower is not eligible. Exceptions to this policy may be granted under the following situations:

1)Assumptions. If the borrower sold the property, with or without a release of liability, to a mortgagor who subsequently defaulted and it can be established that the loan was not in default at the time of assumption, the borrower is eligible.

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2)Divorce. A borrower may be eligible if the divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. However, if a claim was paid on a mortgage in default at the time of the divorce, the borrower is not eligible.

3)Bankruptcy. When the property was included in a bankruptcy that was caused by circumstances beyond the borrower's control (such as the death of the principal wage earner; loss of employment due to factory closings, reductions-in-force, or serious long-term uninsured illness), the borrower may be eligible.

If the lender has reason to believe the CAIVRS message is erroneous or must establish the date of claim payment, it must contact the local HUD office for instructions or documentation to support the borrower's eligibility. The local HUD Office can provide information regarding when the three-year waiting period has passed or that the social security number in CAIVRS is an error.

4-4TITLE EVIDENCE. The lender must submit a title insurance commitment at least equal to the maximum claim amount with the borrower's application to HUD. If the local HUD office has determined that title insurance cannot be obtained at reasonable rates, an alternative may be substituted. However, in order to avoid incurring unnecessary expenses, the lender must review the following borrower eligibility requirements before ordering a title insurance commitment to be paid for by the borrower:

A.The borrower's age. All borrowers must be at least 62 years old when they sign the Uniform Residential Loan Application (URLA) and the HUD/VA Addendum (Form HUD 92900-A). The lender should request evidence of the ages of all borrowers, and accept all reasonable forms of evidence.

B.The borrower's Federal credit record. The borrower cannot have a delinquent or defaulted Federal debt that cannot be satisfied at closing. Payment of an insurance claim by HUD on a previously insured mortgage does not automatically preclude the borrower from qualifying for a reverse mortgage if valid extenuating circumstances caused the foreclosure (see Paragraph 4-3).

C.The borrower's principal residence. The property must be the principal residence of each borrower, as defined in Paragraph 4-7A. of this chapter. Married spouses or other co-borrowers may be living apart because one of them is temporarily or permanently in a health care facility; however at least one borrower must be living in the home in order for the HECM loan to close.

If, after a review of these requirements, the lender finds that the borrower is not eligible, the borrower should be notified of his or her ineligibility, and the application process must cease. The lender cannot charge the borrower for any services performed after this determination.

4-5HOME EQUITY CONVERSION MORTGAGES FOR PROPERTY HELD IN TRUST. HUD will insure HECMs on property held in the name of an inter vivos trust, also known as a living trust. In general, a living trust is created during the lifetime of a person [as opposed to a testamentary trust which is created by the person's will after his/her death]. A living trust is created when the owner of property conveys his/her property to a trust for his or her own benefit or for that of a third party [the beneficiaries]. The trust holds legal title and the beneficiary holds equitable title. The person may name him/herself as the beneficiary. The trustee is under a fiduciary responsibility to hold and manage the trust assets for the beneficiary. The trustee's responsibilities are set out in a trust agreement.

Property held in a land trust is eligible for a HECM if the requirements for a living trust are met. Property held in a living trust is eligible for a HECM if the trust, and the borrowers, meet the following requirements:

A.Conditions for Origination in the Name of a Living Trust.

1)All beneficiaries of the trust must be eligible HECM borrowers at the time of origination and until the mortgage is released [i.e. borrower/beneficiary must occupy the property as a principal residence and new beneficiaries may not be added to the trust]. Contingent beneficiaries, that receive no benefit from the trust nor have any control over the trust assets until the beneficiary is deceased, need not be eligible HECM borrowers.

(4-5A.)

2)The trustee must sign the mortgage, and the mortgage must be signed by each borrower/beneficiary if necessary to create a valid first mortgage. The borrower/beneficiary must sign the Note and Loan Agreement. The lender may require the signature of the trustee on the Note or the signature of the borrower/beneficiary on the mortgage.

3)The trust shall not be a party to the Loan Agreement. The borrower/beneficiary may issue instructions to the lender to permit the trustee to exercise one or more rights stated in the Loan Agreement on behalf of the beneficiary; i.e. the right to receive loan advances or to request changes in the payment plan.

4)The lender must be satisfied that the trust is valid and enforceable, that it provides the lender with a reasonable means to assure that it is notified of any subsequent change of occupancy or transfer of beneficial interest, and ensures that each borrower/beneficiary has the legal right to occupy the property for the remainder of his or her life.

B.Transfer of the Property Into or From a Trust.

1)The borrower under an insured HECM may transfer the property to a living trust without causing the mortgage to become due and payable if the lender finds that the trust meets all requirements that would have applied if the trust owned the property at closing. The lender may require the trust to formally assume the borrower's obligation to repay the debt as stated in the Note if considered advisable to avoid difficulty in enforcement of the Note and mortgage.

2)If the trust is terminated, or the property is otherwise transferred from an eligible trust holding the property, the mortgage will not become due and payable, provided that one or more of the original borrowers who signed the Note and Loan Agreement continue to occupy the property as a principal residence and continue to retain title to the property in fee simple or on a leasehold interest as set forth in 24 CFR Section 206.45(a).

4-6POWER OF ATTORNEY AND CONSERVATORSHIP GUIDELINES. The following guidelines apply to all phases of HECM loan processing:

A.Mortgage Loan Application.

1) Borrowers with legal competency:

a.All borrowers must sign mortgage loan application.

b.Mortgage loan application may be executed on behalf of a borrower by an "agent" or "attorney in fact" holding a durable power of attorney specifically designed to survive incapacity and avoid the need for court proceedings.

2) Borrowers lacking legal competency:

a.Incompetent borrower may not sign the mortgage loan application.

b.Court-appointed conservator or guardian may execute any necessary documents, including the mortgage loan application. The lender must provide evidence that the conservator or guardian has authority to obligate the borrower.

c.A person holding a durable power of attorney specifically designed to survive incapacity and avoid the need for court proceedings, may execute any necessary documents, including the mortgage loan application.

(1)To be valid, a durable power of

attorney must be prepared when the "principal" is competent to understand the nature and significance of the instrument.

(2)The durable power of attorney must comply with State laws regarding signatures, notarization, witnesses, and recordation.

B.Closing Documents. Power of attorney (durable or otherwise) may be used for closing documents. Any power of attorney must comply with State law and allow for the Note to be legally enforced in that jurisdiction.

C.Counseling Session. For borrowers lacking legal competency, the counseling session may be conducted with a person holding a power of attorney, or with a court-appointed conservator or guardian.

4-7REQUIRED MORTGAGE CREDIT DOCUMENTATION. After performing a preliminary eligibility review of the borrower, the lender must submit the following documents to the local HUD office for Mortgage Credit Analysis:

A.Uniform Residential Loan Application (URLA) and HUD/VA Addendum (Form HUD 92900-A). This application must be completed according to the instructions contained in Appendix 15. At the time that the lender completes the borrower's application, it must do the following:

1)Participate in a face-to-face interview with the borrower in which the information on the application is verified by the borrower. Exceptions to this requirement are as follows:

a.A face-to-face interview is not required if the property is at least 50 or more miles from the mortgagee's nearest office, and a face-to-face counseling session was conducted. Under these circumstances, the mortgagee may interview the borrower by telephone, and must certify as to the date and person(s) with whom they spoke. The mortgagee must elicit as complete a picture of the borrower as if a face-to-face interview were conducted.

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b.If the borrower lacks legal competency and the loan application is being executed by a person holding a durable power of attorney, or by a court-appointed conservator, the face-to-face interview must be conducted with the person holding the power of attorney or conservator. If the borrower is legally competent and the loan application is being executed by an agent or attorney in fact, then the face-to-face interview may be conducted with the agent, but every effort should be made on the part of the mortgagee to interview the borrower as well. (Geographical limit of 50 miles also applies here).

c.If married spouses, or other co-borrowers, are living apart because one of them is temporarily or permanently in a health care facility, a face-to-face interview is only required with the borrower who is still living in the home.

2)Provide to the borrower blank copies of the first mortgage, first note and Loan Agreement, if it has not already done so, and explain the principal provisions of those documents, including a disclosure of servicing fees, if any are to be charged.

3)Provide to the borrower a copy of Notice to the Borrower (Appendix 14), which explains the procedures that the borrower should follow in case of chronically late payments or non-payment by the lender. This disclosure must also explain that the borrower's liability is limited to the value of the property at the time the mortgage is due and payable.

4)Explain to the borrower the consequences of placing junior liens on the property.

5)The lender must provide the borrower with a certification for the borrower's signature stating that he or she received copies of the security instruments and the Notice to the Borrower, and that the lender explained the principal provisions of the documents. This document must accompany the application in the mortgage credit package.

B. Credit report for each borrower. A merged in-file report, containing the information currently available from three consumer credit information repositories will fulfill this requirement.

1) The lender's review of the report should be limited to the Public Record Information section, in order to determine whether or not the borrower is delinquent or in default on any Federal debts.

2) Any borrower that is presently delinquent or in default on any Federal debt owed to the United States is ineligible for a HECM until the debt is brought current, paid or otherwise satisfied, or satisfactory repayment arrangements have been made between the borrower and the Federal agency to which the debt is owed and is verified in writing. Additionally, any borrower with a judgment lien against his or her property for a debt owed to the United States is not eligible for a HECM until the judgment is paid or otherwise satisfied.

C. Credit Alert Interactive Voice Response System (CAIVRS). In order to demonstrate evidence of pre-screening, a separate written statement signed by the lender must be prepared containing the authorization code from CAIVRS (see Paragraph 4-3).

D. Title evidence. A title insurance commitment at least equal to the maximum claim amount, showing that the mortgage will be a first lien of record when it is recorded, must be submitted. Other title evidence is acceptable only if the local HUD office determines that title insurance is not available at reasonable rates.

E. Certificate of counseling. The counseling agency will provide a certificate (Appendix 16) attesting to the borrower's attendance at a counseling session. The counseling session may be attended by a person holding a power of attorney or by a conservator. See Paragraph 4-6C.

F. Identification of the borrower. Each borrower must provide picture identification, evidence of his or her age, and evidence of his or her social security number. A photocopy of the picture identification, and of the documents evidencing social security number and age must be included in the application package.

1)Picture identification may be a photocopy of the driver's license, passport, job or trade union identification card, or similar official documentation. If photographic identification is not available, the lender must provide a satisfactory explanation as to why the borrower cannot provide it and what documents the lender examined to establish the identity of the borrower.

2)Social security number documentation must be provided for all borrowers on all transactions. While the actual social security card is not required, the social security number can be obtained from another source such as the driver's license, pay stub or bank statement. The only exception to the social security number requirement is for individuals not required to obtain a social security number, such as employees of the World Bank or foreign employees of embassies. If a borrower contends he or she is not required to obtain a social security number, he or she must execute a certification that a social security number has not been issued.

G.Good Faith Estimate of Settlement Costs. The lender must provide an estimate of settlement costs to the borrower no more than three (3) days after the loan application is provided to the borrower, and a copy of the estimate signed by the borrower should be submitted.

H.Verification of Deposit. Must be submitted for any portion of the loan origination fee that will be paid in cash.

I.Truth-in-Lending Act Disclosure Statement. The lender should comply with requirements in Regulation Z for Open End Credit.

J.ARM Disclosure Statement. For adjustable rate mortgages, the lender must provide the borrower with a disclosure statement in compliance with Regulation Z (12 CFR 226). This statement must be provided to the borrower with the loan application and signed by all borrowers.

K.Shared Appreciation Disclosure Statement. If this is applicable, besides disclosing the terms of the shared appreciation mortgage, the lender must disclose to the borrower the principal limit, interest rate and monthly payments for a comparable mortgage offered by the lender without shared appreciation. The calculations for a shared appreciation mortgage are explained in Chapter 5.

L. Loan Cost Disclosure Statement. Lenders are required by Section 255 of the National Housing Act to disclose total loan costs for a HECM expressed as an average annual percentage rate for at least two loan terms and two house appreciation rates. Total loan costs include closing cost, interest, mortgage insurance premiums, and servicing fees. In order to satisfy this requirement, lenders must use the HECM spreadsheet software (see Paragraph 5-2) which has been designed to provide this information.

4-8 MORTGAGE CREDIT ANALYSIS. HUD Mortgage Credit analysis can only be performed by a HUD staff examiner and should comprise the following:

A. Borrower's application. Refer to Appendix 15 to ensure that the URLA and Form HUD 92900-A were completed correctly. The review should include a check of the following:

1) The youngest borrower must be 62 years of age or older by the date the application is signed. The "Age" block in SECTION III must reflect the borrower's current age.

2) The subject property should be listed as the borrower's address, and "Primary Residence" must be checked in SECTION II.

a. The subject property must be the borrower's principal residence, which is defined as the dwelling where the borrower maintains his or her permanent place of abode and typically spends the majority of the calendar year. A person may have only one principal residence at any one time.

b. The property will be considered to be the principal residence of any borrower who is temporarily or permanently in a health care institution as long as the property is the principal residence of at least one other borrower who is not in a health care institution.

3) The principal limit in the "Amount" block in SECTION I should be verified to ensure that it was calculated properly.

a. The lender's calculations should be checked against the procedures outlined in Chapter 5 for determining the principal limit.

b. The expected average mortgage interest rate used by the lender in calculating the borrower's principal limit should be the fixed interest rate or, for an ARM, the U.S. Treasury Securities Rate adjusted to a constant maturity of ten years plus the margin used by the lender in determining the borrower's adjustable rate. The rates used should be those that are in effect on the date that the application is signed.

4)Liabilities from existing liens on the property, delinquent Federal debts, repairs to be completed, and the initial MIP (SECTION VII. Blocks b., d., and n.) should be verified.

5)SECTION IX. must have original signatures to certify to the information on the application.

6)The Mortgage Credit Examiner must complete the entire worksheet in Appendix 18 using the information on the URLA and Addendum. The number of children should be entered regardless of whether or not they are dependent. Information from the worksheet will be entered into CHUMS.

B.Borrower's credit. Review the borrower's credit report to check for any claims or defaults on debts owed to the Federal government, and any existing debts on the property.

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1)Generally unsecured debts other than delinquent Federal debts, regardless of their status (e.g. delinquent credit card accounts), should not impact negatively on the borrower's eligibility.

2)Any delinquent Federal debts or liens on the property must not be in excess of the borrower's net principal limit, unless the borrower has a separate source of funds from which to draw. Liens must be removed or subordinated at closing. Conditions should be placed on the Firm Commitment to ensure that this requirement is met.

3)If HUD has previously paid an insurance claim for an insured mortgage on a property owned by the borrower, the borrower is not ineligible for the program if extenuating circumstances caused the foreclosure to occur. However, if extenuating circumstances did not exist, the borrower is ineligible for a reverse mortgage (see Paragraph 4-3).

C.CAIVRS Authorization Code. Review the statement signed by the lender containing the CAIVRS Authorization Code. If the CAIVRS finding indicates that a claim or default against the borrower exists, the local HUD office must notify the lender to have the borrower correct or explain the finding (see Paragraph 4-3).

D.Title evidence. Review the title insurance commitment (or other evidence acceptable to the local HUD office) to ensure that it is at least equal to the maximum claim amount and that the borrower is able to pay off any existing liens at closing.

1)The title evidence should meet the standards required for standard FHA-insured mortgages (24 CFR 203.387 and 203.389 or 234.285).

2)The title insurance commitment must show that the insured first mortgage will be a first lien of record when recorded.

3)Special exceptions limiting title insurance due to the unusual characteristics of a reverse mortgage are not acceptable. For example, the following exceptions are not acceptable:

(4-8D.)

a.The lack of a stated mortgage term.

b.Negative amortization.

c.Shared appreciation.

d.Compound interest.

4)Where a maximum mortgage amount is stated in the mortgage, the title commitment may contain an exception for loan advances made in excess of that amount.

5)Title insurance is required only for the mortgage to be insured, and not for the second mortgage held by HUD.

E.Certificate of counseling. The certificate from a HUD-approved counseling agency must comply with the model in Appendix 16 and should state that the borrower has received counseling.

F.Identification of the borrower. Copy of a picture identification card, verification of the borrower's Social Security number, and evidence of the borrower's age should be submitted unless conditions for exceptions exist (see Paragraph 4-7F., above).

G.Good Faith Estimate of Settlement Costs. The copy of the signed estimate must be reviewed to verify that the estimate of closing costs is the same as the estimate on the URLA, SECTION VII. Block f.

H.Truth-in-Lending Act Disclosure Statement. The lender must submit copies of any disclosure statements required by Regulation Z for Open End Credit.

I.ARM Disclosure Statement - If the borrower has chosen an adjustable interest rate, the lender must submit a disclosure signed by the borrower that complies with Regulation Z (12 CFR 226).

1)The disclosure statement must include the one-year Treasury rate (index) in effect when the borrower signed the application, and the margin that the lender is using to determine the initial interest rate.

2)Increases of more than one percent to the index, and any increases in the margin after the issuance of the Firm Commitment will require reprocessing of the commitment before the loan can be endorsed.

J.Shared Appreciation Disclosure Statement. If this is applicable, a copy of the statement provided to the borrower, disclosing characteristics of the shared appreciation mortgage and the other options available to the borrower must be signed by the borrower and submitted by the lender.

K.Certification of receipt of closing documents. A certification signed by the borrower must be submitted stating that he or she received copies of the first mortgage, first note, the Loan Agreement, Loan Cost Disclosure Statement, and a Notice to the Borrower explaining the procedures to follow in case of non-payment or late payments by the lender (Appendix 14), and that the lender explained the principal provisions of the documents.

4-9FIRM COMMITMENT. If the borrower is eligible, the Mortgage Credit Branch will issue a Form HUD 92900.4, Firm Commitment, with a term of 90 days or the remaining term on the Conditional Commitment, whichever is longer.

A.Because of the unusual nature of these mortgages, much of the Form HUD 92900.4 will be left blank and should be disregarded.

B.The name of the lender and the borrower, and the property address will appear on the Form HUD 92900.4.

C. The Form HUD 92900.4 will show the issue date and the expiration date of the firm commitment, along with the property value and closing costs, in the spaces identified for this information.

D. The following information will appear in the blank remarks section of the Form HUD 92900.4:

1) Principal Limit

2) Initial MIP

3) Conditions of the Firm Commitment

E. The local HUD office must delete Line (c) of the Lender's Certificate at the top of the Form HUD 92900.4. This line refers to disbursement procedures with a forward mortgage and does not apply to reverse mortgages.

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