

# **MBA National Mortgage Servicing Conference February 2007**

## **Reverse Home Equity Conversion Mortgage Servicing Servicing Special Loans for Seniors Age 62 and Over**

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# What is a Reverse Mortgage?

- Reverse mortgages allow homeowners age 62 and older the ability to convert part of the equity in their home into tax-free proceeds without having to sell their home, give up title or take on a new monthly mortgage payment.
- The reverse mortgage is aptly named because the payment stream is in "reverse." Instead of making payments to a lender, as with a regular mortgage or home equity loan, a lender makes payments to the borrower.
- A reverse mortgage becomes repayable when the home is sold or vacated for other reasons. In addition, the repayment cannot exceed the value of the home.

## Different than a Home Equity Loan

- No payments required as long as the house is the principal residence.
- No income verification since monthly repayments are not required.



# Eligibility for a Reverse Mortgage

- All borrowers must be at least 62 years old.
- The home is the primary residence.
- The borrower(s) own(s) the home free and clear or the home debt must be paid off with the reverse mortgage proceeds.
- There are no income, employment, medical or credit score qualifying restrictions.
- Free counseling with a HUD-approved counselor is required.



# Purpose of the Reverse Mortgage

- Fund retirement and/or to supplement social security.
- Keep senior citizens in their homes and out of permanent care facilities.
- Pay for home modifications so Seniors can age in place.
- Cover health-related expenses such as hospital bills and prescription drugs.
- Pay property taxes.
- Take a vacation.



# Why do Seniors Choose a Reverse Mortgage?

- **Security** –retain title and ownership of home. No repayment required as long as the home is the primary residence.
- **Flexibility** – Obtain loan proceeds in a lump sum, in monthly installments, line of credit, or any combination of the three.
- **Choice** – can change payment plans as many times as desired through the life of the loan.
- **Peace of Mind** – Enjoy a more comfortable retirement in home. Mortgage insurance ensures that you will never owe more than the value of the home.

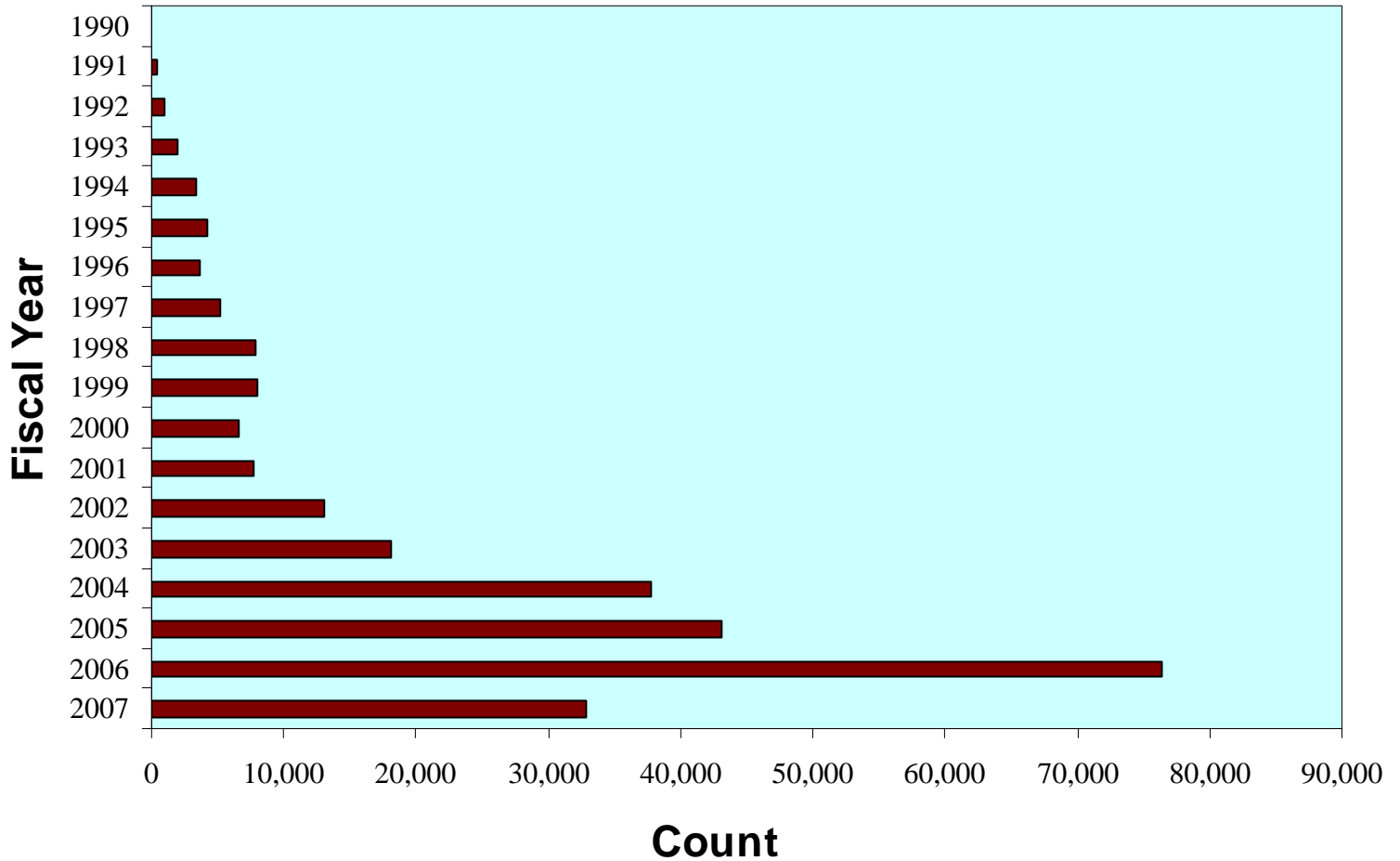
# Types of Reverse Mortgages

- FHA Home Equity Conversion Mortgage (HECM)  
– is an FHA insured reverse mortgage product
- Home Keeper – is a Fannie Mae reverse mortgage product
- Proprietary Products

# Product Differences

<b>Features</b>	<b>HECM</b>	<b>Home Keeper Mortgage</b>
Youngest Borrower's Age	62 or older	62 or older
Interest Rate	Adjustable	Adjustable
Maximum Claim Amount**	Up to \$362,790 depending on where you live.	Up to \$417,000, or the Adjusted value of the property.
Eligible Properties	1-4 unit dwellings, condominiums, townhomes, manufactured home	Single family only, condominiums, townhomes, manufactured homes
Payment Plans	Term, Tenure, Modified Term, Modified Tenure, Line of Credit	Tenure, Modified Tenure, Line of Credit

## HECM Endorsements





# Total HECM Endorsements

238,619

# Types of Payment Plans

- **Tenure** – equal monthly payments for life, as long as at least one borrower continues to occupy the property as their principal residence and meets all terms of the mortgage.
- **Term** – equal monthly payments for a fixed period of months selected.
- **Line of Credit** - unscheduled payments or installments, at times and in amounts of borrower's choosing, until the line of credit is exhausted.
- **Modified Tenure** - combination of line of credit with monthly payments for as long as the borrower occupies the home as their primary residence.
- **Modified Term** - combination of line of credit with monthly payments for a fixed period of months selected by the borrower.

# General Servicing Functions

- Payment Disbursements, Scheduled and Line of Credit
- Payment Disbursements Methods
- Repayments
- Payment Plan Changes
- Statement of Account, Annual, 1098's, Interest Rate Changes
- Track Payments and Interest, MIP and Service Fees
- Payment for Taxes and Insurance - Escrow Set A Side
- Occupancy Verifications, Property Maintenance, Repair
- HUD Assignment Option
- Default Administration
- Bankruptcy

# Payment Disbursements

## Schedule Payments

- 1<sup>st</sup> scheduled payment after closing
- Disbursement timeline

## Line of Credit Requests

- Written request (or Servicer form)
- Either mailed or faxed to the Servicer
- Disbursement amounts
- Disbursement timeline

# Payment Disbursement Methods

## Payment Disbursement Methods

- Direct Deposit - Takes 24-48 hours to post to a borrower's account
- Check - Mailed via standard US Postal Service

## Penalties for late disbursements:

- 10% penalty for the amount outstanding
- Interest (current rate at the time) for each day payment remained outstanding
- Can not exceed \$500.00

# Repayments

## Partial Repayments

Borrowers are permitted, but not required, to make partial repayments towards a reverse mortgage.

- \$50.00 minimum repayment required.
- Must be applied in the following order:  
MIP, Servicing Charges, Interest, Principal
- Partial repayments (with line of credit option) decrease the current loan balance and increases the line of credit, making these funds available to the borrower for future draws.

# Payment Plan Changes

All borrowers choose a Payment Plan structure that best fits their needs at closing and has the option to change their existing Payment Plan anytime throughout the life of the loan with the remaining proceeds.

- Payment Plan Options

- ▶ Line of Credit
- ▶ Term
- ▶ Tenure
- ▶ Modified Term
- ▶ Modified Tenure

- Change Fee

- ▶ \$20.00 fee for HECM
- ▶ \$50.00 for Fannie Mae HomeKeeper



# Payment Plan Changes

## General Reasons to Change Payment Plan

- Standard change from one plan to another (i.e. Tenure to LOC)
- Change in Term length to increase/decrease scheduled monthly payment
- Establish Tax and/or Insurance Set-Aside after closing
- Making a partial repayment to establish or increase the current Payment Plan structure
- Mandatory change to Payment Plan for delinquent tax and/or insurance payments

# Statements of Account

Statements will vary from one Servicer to the next, but will contain the same basic information.

- Monthly
  - Current Balances
  - Interest Rates
  - Monthly Loan Balance Activity
  - Annual Principal Limit
- Annual
  - Some Servicer's may send out annual statements detailing the accruals for the prior year.
- 1098
  - For borrowers that have paid more then \$500.00 in interest
- Interest Rate Changes
  - Monthly or annually – mailed 25 days prior to the interest rate change date

# Payment of Taxes and Insurance

- Borrowers are responsible to maintain Taxes and Insurance (T&I) on the property. The borrower may elect to have the Servicer pay the T&I (set aside) or the borrower may make the payments themselves and provide proof of payment to the Servicer.
- Tax and Insurance paid by Borrower- borrowers should always ensure payments for T&I are made in a timely manner to avoid delinquent reporting to the Servicer. A series of letters are cycled to borrowers that fail to provide proof of payment to encourage the customer to make payment for the T&I or provide the appropriate proof of payment.

# T&I Escrows

## Tax and Insurance paid by Servicers

- If the T&I Set-Aside is set up at loan closing, funds will need to be set up in a First Year Set-Aside to cover any amounts owed for the first year.
  
- After closing:
  - ▶ A new Payment Plan will be needed.
  - ▶ Amounts withheld equals 1/12 of the total annual amount.
  - ▶ The Set-Aside amount is reassessed annually to ensure adequate amounts are being withheld.
  
- Servicers are required to make the T&I payments in a timely manner to avoid late charge or penalties. Servicers are required to observe any discount periods.

# Tax Deferral

- Borrowers are not permitted to participate in real estate tax deferral programs, if the lien created is not subordinate to the 1<sup>st</sup> and 2<sup>nd</sup> Security Instruments.

There are currently only three states, (California, Oregon, and Massachusetts) approved by Fannie Mae to participate in tax deferral programs. The language in the state legislation clearly outlines a subordinate lien position to a reverse mortgage. Outside of these states, a Servicer will work with the investor for approval.

- Tax Exemptions are permissible

# Occupancy Verification, Property Maintenance, Repairs

- **Occupancy Verification** – the borrower must certify that the property is their primary residence through executing an annual certification document. Servicers are required to advise the borrower to inform the Servicer in writing of absences from the property in excess of two months to avoid determination that the borrower's principal residence has changed.
- **Property Maintenance** – the borrower is required to maintain the condition of the property in order to continue meeting FHA's Minimum Property Standards.
- **Repair Administration** - There is an initial time frame established in the repair rider to complete the repairs (generally 6 months) with possible extensions up to one year from the closing date. A Servicer will monitor the completion of the repairs by staying in continued communication with the borrower through correspondence/telephone. Only repairs listed on the repair rider will be paid with repair set-aside proceeds.

# Assignment to HUD

Servicers have the option to assign a mortgage to HUD when the outstanding loan balance reaches 98% of the maximum claim amount, or a payment, when added to the outstanding balance, would equal or exceed 98% of the maximum claim amount, provided all other HUD criteria is met:

- The Servicer must be current in making payments to the borrower;
- The Servicer must be current in making payments to MIP, including interest and late charges, if any;
- Title must be clear and marketable; and
- The loan may not be in a due and payable

# Assignment is Optional

- Assignment is not a requirement
- It is an option that allows servicers to limit their risk in regions where property values do not continue to support additional balance increases
- Many servicers elect not to assign loans to HUD

# HECM Assigned Portfolio

- HUD currently services 3,373 assigned loans with a combined UPB of \$4,532,341
- Average claim payment on assigned loans is \$107,703
- HUD collects an average of \$6,610,673 per month on pay off of assigned HECMs for 98% recovery!

# Default Administration

- HUD approval is not required to declare a loan due and payable when:
  - The last remaining borrower passes away
  - The property is sold and the last remaining borrower is removed from title
- Servicer works with the estate to sell the property and satisfy the loan.
- If the sale proceeds are insufficient the servicer files a claim for insurance benefits.

# Default Administration - Foreclosure

Trigger events for foreclosure proceedings

- Estate contacts the Servicer six months after the maturity event (death)
- Borrower/estate is unwilling or unable to satisfy mortgage debt
- No contact can be made with borrower and/or estate and the 30 day demand letter has expired.

# Due and Payable Determination

HUD approval to declare a loan due and payable is required when:

- The property is no longer the principal residence of at least one borrower for reasons other than death
- Borrower does not maintain the property as a principal residence for a period exceeding 12 months because of physical or mental illness
- Borrower fails to pay taxes and/or insurance and all attempts to rectify the situation have been exhausted
- Borrower fails to maintain condition of property (the borrower is unable or unwilling to make the repairs to the property)

# Default Administration – Loss Mitigation

- Before requesting that HUD declare a loan due and payable the servicer must work with the borrower to correct the default.
- Look for other sources of funds to pay T&I
- Establish repayment plans for advances over the max claim amount
- Complete property repairs
- Refinance
- Sell property privately for an amount sufficient to pay off the debt
- Deed-in-lieu of Foreclosure - In cases where the remaining equity is insufficient to pay off the debt.

# Default Administration – Taxes and Insurance

- Servicers are encouraged to advance funds to pay for taxes and/or insurance beyond the maximum claim amount of the mortgage when property values minimize the risk of loss to the servicer.
- Because the property must be sold prior to filing a claim for an amount up to the maximum claim amount, Servicers have an opportunity to recoup these advances from the net proceeds of the sale.
- If the sale of the property does not net enough to satisfy the full amount of the debt, the servicer may file a claim up to the maximum claim amount.

# Bankruptcy

- Bankruptcy is not considered a default under the HECM program.
- Borrowers can no longer access funds unless the request is approved by the attorney monitoring the bankruptcy or the court.

# HUD - National Servicing Center

Williams Tower II, 2 West 2<sup>nd</sup> Street, Ste 400, Tulsa, OK 74103

Phone 1-800-594-9057

Fax 918-292-8984

- Jane Anderson - 918-292-8961 or email  
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# Question and Answer Session

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**THANK YOU!**

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