



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

March 28, 2008

MORTGAGEE LETTER 2008-08

TO: ALL FHA-APPROVED MORTGAGEES

SUBJECT: Home Equity Conversion Mortgages - Fixed Interest Rate

This Mortgagee Letter provides guidance to FHA-approved lenders choosing to offer a fixed interest rate Home Equity Conversion Mortgage (HECM). Specifically, this Mortgagee Letter clarifies and reminds lenders that:

- Fixed interest rate HECMs may be open or closed-ended credit;
- The expected average mortgage interest rate used to calculate the principal limit on a fixed interest rate HECM and the HECM Note rate must be identical;
- The monthly servicing fee for a fixed interest rate HECM can be up to \$30.00; and
- HECM borrowers can change payment plan options during the term of the mortgage as long as the mortgage balance is less than the principal limit.

Open-Ended/Closed-Ended Credit

Fixed interest rate HECMs may be either open or closed-ended credit. The Note and Loan Agreement must reflect whether the HECM is open or closed-ended credit. FHA also reminds lenders that they are permitted to make the necessary and appropriate modifications to HECM legal documents to ensure compliance with FHA requirements as well as other Federal, State and local laws.

Fixed Mortgage Interest Rate

Lenders offering fixed interest rate HECMs are reminded that the “expected average mortgage interest rate” used to determine the principal limit must be the same as the HECM note interest rate and set simultaneously. For example, if a lender offers a line-of-credit payment plan with an interest rate of seven percent (7%) fixed then the interest rate (i.e., the “expected average mortgage interest rate”) used to calculate the principal limit, and the HECM note rate must both be set at seven percent (7%).

Monthly Servicing Fee and Post Closing Changes

The allowable monthly servicing fee for fixed interest rate HECMs can be up to \$30.00, if the cost has not already been included in the borrower's Note interest rate. Lenders may not charge any other fee for servicing responsibilities associated with the mortgage unless the charge has been authorized by the Secretary. For example, lenders may charge up to \$20.00 for post-closing payment plan changes.

Borrowers may not change from a fixed interest rate payment plan to an adjustable interest rate payment plan unless they elect to refinance their existing mortgage.

If you have any questions regarding this Mortgagee Letter, please call FHA's Resource Center at: 1-800-CALL-FHA (1-800-225-5342).

Sincerely,

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner