



# MBA Reverse Mortgage Lending Conference April 2008

## Reverse Mortgage Servicing

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# Forward / Reverse Servicing Comparison

## Forward Loan

- Few repair escrows
- Receive fixed payments
- Few payment changes
- Required T&I escrow
- Assess late charges
- Annual reporting
- Responsible for P&P
- Service until payoff
- Default risk
- Repayments
- Payoff processing

## Reverse Loan

- Repair escrows common
- Make payments to Borrower
- Payment Plan changes common
- T&I escrow optional
- Servicer may pay late charges
- Annual reporting
- Responsible for P&P
- Optional assignment to HUD
- Limited default risk
- Repayment
- Payoff processing

# Types of Reverse Mortgages

- FHA Home Equity Conversion Mortgage (HECM) – is an FHA insured reverse mortgage product
  - 85% industry loan volume
- Home Keeper – is a Fannie Mae reverse mortgage product
  - 1% industry loan volume
- Proprietary Products
  - 4% industry loan volume

# General Servicing Functions

- Payment Disbursements, Scheduled and Line of Credit
- Payment Disbursements Methods
- Repayments
- Payment Plan Changes
- Statement of Accounts, 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 Admin
- HUD Assignment Option
- Default Administration

# Payment Disbursements

- Scheduled Monthly Payments to Borrower
  - 1<sup>st</sup> Payment sent on first business day of month following funding
  - Subsequent payment disbursed on first business day of each month
  
- Line of Credit Requests
  - Written request submitted to Servicer
  - Can be mailed or faxed to servicer
  - Servicer must confirm that funds are available
  - Funds must be disbursed to borrower within five business days from receipt of request

# Payment Disbursement Methods

## Payment Disbursement Methods:

- ACH/Direct Deposit
  - Typically received next business day
- Paper Check
  - Mailed via standard US Mail

## Penalties for late disbursements:

- 10% penalty for the amount requested
- Interest accrued during delay
- Penalty is capped at \$500 per occurrence

# Repayments

Borrowers are permitted, but not required, to make repayments on their reverse mortgage at any time.

- Line of Credit Payment Plan
  - Repayment reduces loan balance and is able to be re-borrowed at any time
  
- Term or Tenure Payment Plan
  - Borrower would need to request payment plan change in order to re-access funds.
  
- Repayment for HECM is applied: 1) Accrued MIP, 2) Accrued Servicing Fees, 3) Accrued Interest, 4) Principal
  - 1098 is only issued for borrowers who actually paid interest during prior period.

# Payment Plan Change

- The borrower selects a payment plan option that fits their needs at the time of closing
  
- Payment Plan Options:
  - Line of Credit
  - Term
  - Tenure
  - Modified Term
  - Modified Tenure
  
- The borrower can change their payment plan at any time, and as often as they would like, by making a request to the servicer.
  - The fee, per plan change, is:
    - \$20 fee for HECM
    - \$50 for Fannie Mae HomeKeeper

# Statement of Account

- Statements will vary from one Servicer to the next, but will contain the same basic information:
  - Monthly Statement
    - Current Balances
    - Interest Rates
    - Monthly Loan Activity
    - Principal Limit
  - Annual Statement
    - Servicer may send out annual statements detailing the activity and accruals for the prior year
  - 1098
    - For borrowers that have *paid* more than \$500 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, Repair Admin.

- **Occupancy Verification** – the borrower must certify that the property is the primary residence through executing an annual certification document.
- **Property Maintenance** – Borrower is required to maintain the condition of the property 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.

## 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 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 status.

# 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
- Some servicers elect not to assign loans to HUD

# Default Administration Due and Payable

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 Servicers' files a claim for insurance benefits.

# 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 - Foreclosure

Trigger events for foreclosure proceedings:

- Estate contacts the Servicer within 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.

# 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
- 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 or there is no interest in attempting to sell

# 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.

# Conclusion

Question and Answer Session

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