



## HECM Program Changes

### Purpose

[Mortgagee Letter 2013-27](#) made several changes to the Home Equity Conversion Mortgage (HECM) program to strengthen the FHA Mutual Mortgage Insurance Fund (MMIF or Fund) and protect the viability of the HECM program.

### Guideline Changes

#### Initial Disbursement Limits

Effective for all case number assignments on or after **September 30, 2013**, disbursements at loan closing, and within the first 12 months of closing (when applicable), cannot exceed the GREATER OF:

- 60% of the Principal Limit; or
- Mandatory obligations plus 10% of the Principal Limit.

**NOTE:** All case numbers assigned on or before September 28, 2013, must close on or before **December 31, 2013**.

#### New Single Disbursement Lump Sum payment option

This Mortgagee Letter announces a New Single Disbursement Lump Sum Payment Option. If selected, the borrower can take the maximum available under one of the above Initial Disbursement Limits as a lump sum at closing, and will not be able to draw anything not taken at closing at a future date. Again, borrowers are not required to take the full amount at closing, but no remaining disbursements will be made available throughout the lifetime of the loan.

#### First 12-Month Disbursement Limit

If the borrower does not elect the Single Disbursement Lump Sum payment option, the borrower is limited to one of the above Initial Disbursement Limits at loan closing OR during the First 12-Month Disbursement Period. RMUSA only offers future disbursement options on the adjustable rate product.

Mandatory Obligations for Traditional and Refinance Transactions include:

- Initial MIP;
- Loan origination fee;
- HECM counseling;
- Reasonable and customary amounts, but not more than the amount actually paid by the mortgagee for any of the following items:
  - Recording fees and recording taxes;
  - Credit report;
  - Survey, if required by the mortgagee or the mortgagor;
  - Title examination;
  - Mortgagee's title insurance
  - Fees paid to an appraiser for the initial appraisal of the property.
- Repair administration fee (N/A for HECM for Purchase transactions);
- Repair Set-Asides (N/A for HECM for Purchase transactions);
- Funds to pay contractors who performed repairs as a condition of closing, in accordance with standard FHA requirements for repairs required by appraiser (N/A for HECM for Purchase transactions);
- Delinquent Federal debt;
- Amounts required to discharge any existing liens on the property (N/A for HECM for Purchase transactions);
- Customary fees and charges for warranties, inspections, surveys, engineer Certifications;
- 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
- Other charges as authorized by the Secretary.

In addition to the above, for **HECM for Purchase** transactions, the following are also considered Mandatory Obligations:

- The amount of the Principal that is advanced towards the purchase price of the subject property; and
- Fees and charges for real estate purchase contracts, warranties, inspections, surveys, engineer certifications.

### **Mortgage Insurance Premium (MIP)**

Effective for all case number assignments on or after September 30, 2013, HECM Standard and HECM Saver initial mortgage insurance pricing options will no longer be available.

- HUD will charge an initial mortgage insurance premium (MIP) of **0.50%** of the Maximum Claim Amount (MCA) when the sum of the mortgagor's initial disbursement at closing, plus other required or available disbursements during the First 12 Month Disbursement, is 60% or less of the Principal Limit.
- If the initial disbursements at closing, plus other required or available disbursements during this 12-month period, are GREATER than 60%, HUD will charge an initial MIP of **2.50%**.

**IMPORTANT NOTE:** When the borrower is eligible for the additional 10% of the Principal Limit during the First 12-Month Disbursement Period, they must decide before loan closing, what amount of the additional 10% they want. The MIP will be calculated based on the borrower's selection, and the borrower WILL NOT be able to access funds over the amount they elected at loan closing until after the First 12-Month Disbursement Period.

### **Principal Limit Factors (PLF)**

Loans with case numbers assigned on or after 09/30/13 must use the new PLF table to calculate the Principal Limit and disclose the amount of proceeds that will be available. RMUSA's technology platform, ReverseVision, has already been updated according to this new table. If an application was taken prior to the change, but a case number was not assigned, the loan originator must redisclose the borrower to one of the new products. The new PLF table is available for reference at:

<http://www.hud.gov/offices/hsg/sfh/hecm/hecmhomelenders.cfm>.

### **ADP Codes**

Case numbers assigned on or after 09/30/13 must be processed using one of the following ADP codes:

<b>ADP Description</b>	<b>ADP Codes</b>
HECM Fixed	961
HECM ARM	962
HECM Condo/Fixed	967
HECM Condo/ARM	968

### **System Changes**

The Loan and Comparison screens have been updated to reflect the new product and payment options.

## Document Changes

Two new application disclosures have been added to ReverseVision documents for loans with case numbers assigned on or after 09/30/13:

- The **Applicant Compliance Agreement** discloses that the Applicant agrees to execute loan documents that may differ from the application loan documents that are given to the applicant upon or at application.
- The **FHA HECM Loan Application Disclosure** discloses the limits and important elections borrowers will now need to make, and inform the Lender about, prior to the closing of the HECM Loan.

There have also been minor changes to several other application and closing documents to reflect the new requirements. These updated documents will be automatically updated in loans with case numbers assigned on or after 09/30/13.

## Training

Additional training on these changes will be made available to our clients.

Also, training and information on the upcoming Financial Assessment and Life Expectancy Set-Aside requirements will be released at a later date. For more information, please contact your Account Executive today.

**Dated:**  
10-1-2013

