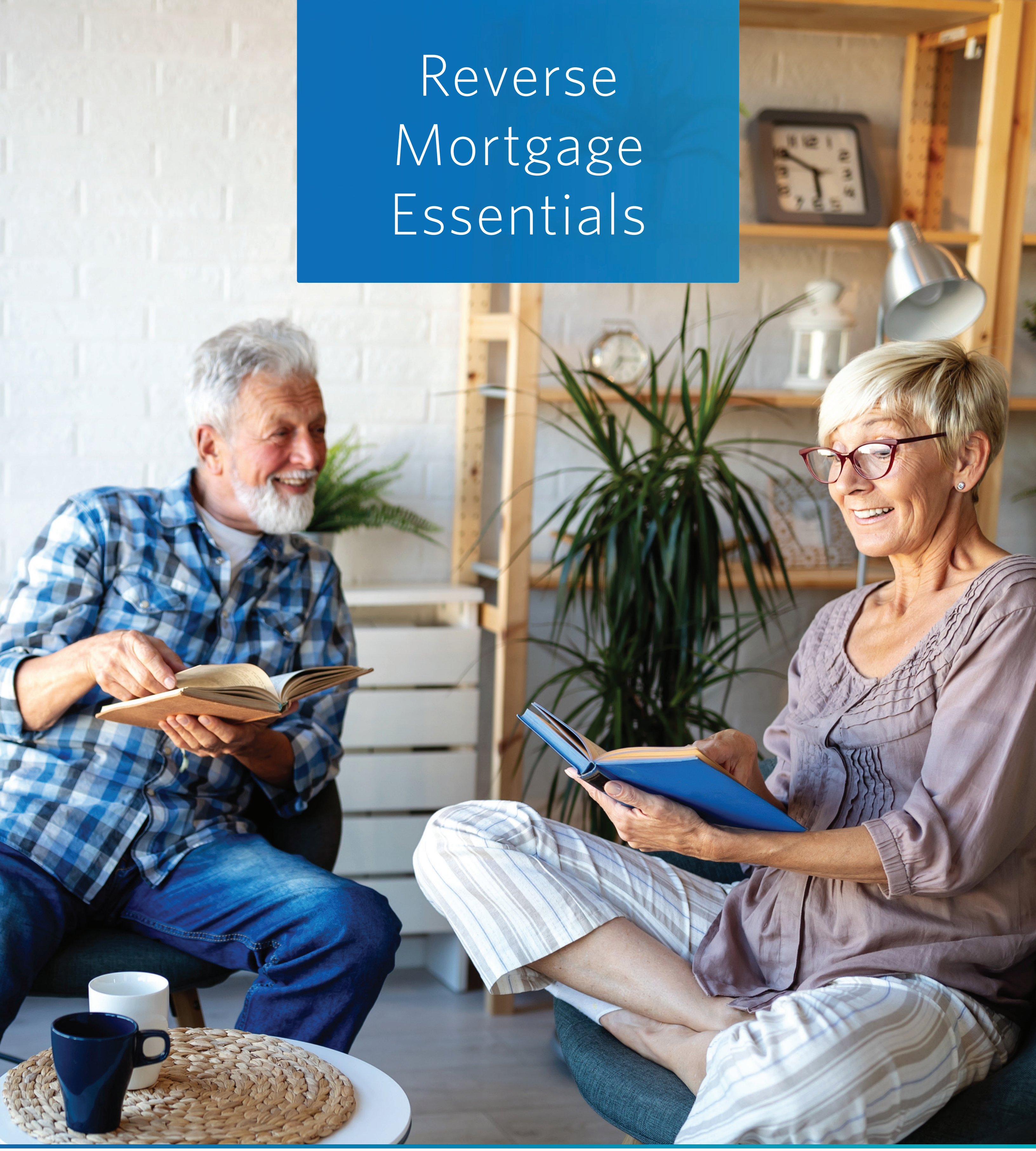
Reverse Mortgage Essentials



Mutual of Omaha
MORTGAGE

Contents

Introduction

The purpose of this guide is to provide a base knowledge of the reverse mortgage product. This is designed for all roles and functions at Mutual of Omaha Mortgage in order to have basic information of the Home Equity Conversion Mortgage (HECM) product.

Topics covered will include:

- Identifying key terms, features and benefits of the HECM
- Comparison of forward and reverse mortgages
- Common myths of the reverse mortgage
- Accumulation of the loan balance
- Details of the various payment plan options
- Defining mandatory obligations and utilization caps

Overview

A reverse mortgage provides senior homeowners with the option to convert part of their equity into tax-free money. Borrowers are not required to sell the home, give up title, or take on a new monthly mortgage payment. The reverse mortgage is aptly named because the payment stream is "reversed." Instead of making monthly payments to a lender, the lender can make payments to the homeowner.

It is a negative amortized loan. The balance grows over time since no payment is made to the principal or interest. This can be worrisome to most people, but since the product allows for payment to be made after the borrower permanently leaves the home, it is actually a significant benefit.

Home Equity Conversion Mortgage (HECM)

The HECM is the oldest and most popular reverse mortgage product, accounting for an estimated 99% of the total reverse market. Available since 1989, HECM's are insured by the federal government through the Federal Housing Administration (FHA), a division of the U.S. Department of Housing and Urban Development (HUD). FHA does not fund loans but rather acts as an insurance agency for banks who originate loans that follow FHA standards. The HECM is the only reverse mortgage product insured by FHA.

Proprietary Products

A proprietary product is one that has been developed by an individual lender. Proprietary products often contain some similar features to HECM products but are developed to address a specific type of borrower that fall outside the parameters of FHA guidelines. They present additional risk to the lender as they are not government insured. However, most will still provide a great benefit to the borrower.

Qualifications

The qualifying criteria for a HECM are still very simple, despite recent changes to the HUD guidelines. They are as follows:

- At least one borrower on title must be 62 or older
- The home must be owner-occupied and an eligible property
- Borrower must NOT have had a cash-out refinance on the subject property during the last 12 months
    - Cash out is defined as receiving $500+ from a refinance
        - Borrowers must wait until 12 months have passed from the closing of the cash-out refinance before the HECM can close
        - There is a caveat to this rule for HELOC's
            - With a 60% utilization, no seasoning is required for HELOC payoff
- The borrower cannot have negative residual income
    - Details according to guidelines in the financial assessment documents separate from this manual

To complete the HECM loan:

- All liens affecting the title on the subject property must be paid off
- The borrower must complete mandatory counseling by a HUD-approved counselor
- Complete all other conditions as deemed required by the underwriter

The amount of available proceeds a borrower can qualify for under the HECM program depends on the following:

- Age
    - Youngest borrower or eligible non-borrowing spouse
- The appraised value of the subject property (MCA: Max Claim Amount)
    - Lesser of the appraised value or the FHA lending limit $822,375
- Current interest rates (Expected rate)
  (Further details on each of these factors will be covered in the following pages).

The borrower will qualify for more funds when:

- The borrower is older
- Interest rates are lower
- Their home value increases

FHA Insurance: Non-Recourse

FHA Mortgage Insurance safely allows a lender to make a loan to a borrower without fear of incurring a loss due to a declining property value or the balance exceeding the value of the home. FHA insures the loan and provides a stable product to the borrower. It also provides for the non-recourse feature of the loan.

Features of the non-recourse aspect of the HECM are as follows:

- The home is the only asset which may be used to pay off the loan.
- The heirs will not inherit a debt unless they choose to.
- The borrower can never owe more than the appraised value of the home at the time the loan is due.
- If the bank is unable, HUD will step in and provide benefits due to the borrower under the terms of their loan agreement.

Mortgage Insurance Premium

The non-recourse feature is provided by payment of the mortgage insurance premium (MIP). This cost is charged both at closing and accrued monthly to the borrower's loan balance. The amount of the MIP charged depends on several factors that will be discussed further in this guide.

Comparison of HECM vs. Forward Mortgage

Though all FHA loans must follow the same basic guidelines, the chart below shows the primary differences between reverse (HECM) and forward mortgages.

Loan Feature	Reverse Mortgage (HECM)	Forward Mortgage
FICO Score Minimum	Not required	Required
Monthly Mortgage Payments	No monthly mortgage payments required	Always required, even on a HELOC
Loan Balance	Increases over time	Decreases over time
Loan Purpose	Refinance, purchase or line of credit	Refinance, purchase or line of credit
Receipt of Funds	Borrower can choose a variety of ways to have funds distributed	Borrower can only receive funds as a lump sum or HELOC
Loan is Paid	When a maturity event occurs	At the end of the set term of the loan
When Loan Balance > Home Value When Loan is Due	Non-recourse loan: no adverse affect on borrower or heirs; MIP will cover the difference	Borrower is always responsible for the full balance of the loan

Common Misconceptions

The following table is included as a reference for common myths and truths within the reverse mortgage space. It is a good idea to keep current on industry trends and program requirements in order to accurately answer your borrower's questions.

Myth	Truth
Myth 1: You must make monthly payments on your reverse mortgage.	The only responsibilities of the homeowner are payment of insurance, taxes and general up keep of the home. There are never any monthly mortgage payments.
Myth 2: You cannot get a reverse mortgage because your house needs too many repairs.	A reverse mortgage is a great way to get cash needed for home repairs without increasing monthly payments. It is also possible to have cosmetic repairs completed after the loan funds dependant upon underwriters' review of required repairs.
Myth 3: The lender will own your home.	The borrower retains ownership of the home. The lender does not take control of the title. The lender's interest is limited to the outstanding balance of the loan.
Myth 4: Only "cash poor" or desperate senior citizens can benefit from the reverse mortgage.	Even though some seniors may have a greater need than others, the reverse mortgage can also be an excellent financial or estate planning tool.
Myth 5: My children will be responsible for the repayment of the reverse mortgage.	The home is the only asset the lender can pursue to repay the Principal Loan Balance (PLB). Repayment amount can never exceed the home's value (at the time of repayment).

Maturity Events

Since the reverse mortgage does not have a specific end date, there are certain occurrences or events that will cause the loan to be due and payable. These are called maturity events and are outlined below:

- Sale of the property
- Death of the last surviving borrower or eligible non-borrowing spouse
- Being physically away from the property for 12 consecutive months
- Failing to uphold any of the borrowers responsibilities as outlined below
- Conveys title of the property to someone else

Borrower responsibilities are as follows:

- Pay the property taxes
- Maintain homeowner's insurance on the property
- Make any repairs necessary in accordance with the repair rider
- Maintain the property

When Heirs Take Possession

In cases where the loan is called due and payable by death of the last surviving borrowers, the heirs have the option to take possession of the home or sell it. They must notify servicing of their decision either way.

If the heirs (estate) plan to keep or sell the home:

- The estate has six months from the date of the borrower's death to pay the HECM loan balance through the sale of the property or refinancing.

If the Estate is not able to sell the property within 6 months and they are making a bona-fide effort to sell the property (demonstrated by presenting a listing agreement with a sales price at or below current market value), then the estate may request an extension from the servicer. At most, the estate may receive up to two - three month (90 day) extensions but in all cases the balance must be paid within 12 months of the borrower's passing.

Non-Borrowing Spouse

When a borrower is married to someone who is younger than 62 years of age, there are certain provisions that will protect the younger spouse. The younger spouse will be able to remain in the home even after the borrower passes away, as long as the following guidelines are met. This means, that the loan repayment will be deferred until a maturity event occurs.

The **non-borrowing spouse** is defined as the spouse (as determined by the law of the state in which the spouse and borrower reside) of the HECM borrower at time of closing and who also is not a borrower. A non-borrowing spouse can remain on title of the home.

Eligible vs Ineligible Non-Borrowing Spouse

When a non-borrowing spouse does not live in the subject property they will be Ineligible for protection under the NBS guidelines. Also, the Principal Loan Limit (PLL) will be based on the youngest borrower or eligible NBS.

Deferral Period

The deferral period is the period of time following the death of the last surviving borrower during which the due and payable status of a HECM is deferred based on the continuous satisfaction of the requirements for an eligible non-borrowing spouse. Guidelines regarding an eligible non-borrowing spouse (NBS) situation are as follows:

- The NBS must be married to the borrower at loan at application through closing and have remained as such for the duration of the loan.
- The NBS must establish legal ownership or other ongoing legal right to remain in the property within 90 days of the death of the last surviving borrower. If they are already on title then that would suffice.
- The NBS must occupy the property as their principal residence.
- During a deferral period, the property shall continue to be considered the principal residence of any NBS who is temporarily in a health care institution, provided the NBS physically occupied the property immediately prior to entering the health care institution and they do not remain in the health care facility longer than 12 consecutive months.
- After death of the last surviving borrower, the NBS must ensure all other obligations of the loan continue to be satisfied and ensure that the loan does not become due and payable for any other reason.

The loan disbursements will stop after the death of the last surviving borrower as well as access to any funds remaining in a line of credit. The loan will continue to accrue interest and MIP after the death of the last surviving borrower. Both the borrower and NBS must sign a disclosure at closing stating the above and must also submit the same certification annually to the lender.

HECM Counseling Requirements

Requirement	Description
Counseling before FHA case number	The borrower must receive counseling before the loan is assigned an FHA case number. For CA, there is a 7 day cooling off period after counseling to assign a case number.
FHA case number	Every FHA loan requires a case number to be issued to begin the loan process. The FHA case number is issued when a completed counseling certificate and signed application is received. If the FHA case number was issued prior to the date of counseling completion or prior to the cooling off period, the loan is considered to be out of compliance.
Lender may not charge fees before borrower is counseled	The lender can take the application but the lender cannot order a title or appraisal on the borrower's behalf until the FHA case number is assigned.
Counseling fee	The fee for counseling is approximately $125+. This is paid at the time of counseling. Some agencies can provide a fee waiver with proof of low income.
Who must attend counseling?	The following parties must receive HECM counseling and provide a Counseling Certificate to the lender as proof of this counseling: • All loan applicants who sign the mortgage note • Non-borrowing spouses • Any party holding title to the subject property (even if they will be removed at closing) • If a POA is signing for the borrower, they must attend counseling

Counseling Requirements

HECM counselors must be HUD-certified in order to conduct HECM counseling. Counselors will review the structure and function of reverse mortgage loans as well as review other options available to the borrower.

Counseling Certificate

Each loan file requires a completed Certificate of HECM Counseling to be included. All sections of the Counseling Certificate must be completed.

- The certificate must be signed and dated by the counselor.
- The Counseling Certificate is only good for 180 days. (The expiration date must be checked. The borrower must apply for the HECM and an FHA case number must be assigned before the counseling certificate expires.)
- The date that the counseling certificate is signed is used to determine the counseling completion date. (Not the date the counseling occurred.)

Certificate of HECM Counseling

Certificate of HECM Counseling

U.S. Department of Housing and Urban Development
Office of Housing

Certificate Number: **123456789**
OMB No. 2502-0524 (expires 4/30/2014)

Provision of this information is required to obtain benefits. HUD may not collect this information, and you are not required to complete this form, unless the form has a currently valid OMB control number.

Privacy Act Notice: The United States Department of Housing and Urban Development, Federal Housing Administration, is authorized to solicit the information requested in the form by virtue of Title 12, United States Code, Section 1701 et seq., and regulations promulgated at Title 12, Code of Federal Regulations. While no assurance of confidentiality is pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information Act request.

Homeowner(s) Name(s):

Property Address City/State/Zip

The U. S. Department of Housing and Urban Development (HUD) requires that homeowner(s) interested in pursuing a Home Equity Conversion Mortgage (HECM) receive information about the implications of and alternatives to a reverse mortgage. The HECM counselor must adhere to all of FHA's guidelines regarding information that must be provided to the potential HECM mortgagor and must tailor the session to address the unique financial circumstances of the household being counseled.

Counselor Certification:

In accordance with Section 255 of the National Housing Act and 24CFR 206.41, I have discussed in detail the following items with the above referenced homeowner(s)

1. Options other than a Home Equity Conversion Mortgage that are available to the homeowner(s), including other housing, social service, health and financial options.
2. Other home equity conversion options that are or may become available to the homeowner(s), such as other reverse mortgages, sale-leaseback financing, deferred payment loans, and property tax deferral.
3. The financial implications of entering into a Home Equity Conversion Mortgage.
4. A disclosure that a Home Equity Conversion Mortgage may have tax consequences, affect eligibility for assistance under Federal and State programs, and have an impact on the estate and heirs of the homeowner(s).
5. Whether the homeowner has signed a contract or agreement with an estate planning service firm that requires, or purports to require, the mortgagor to pay a fee on or after closing that may exceed amounts permitted by the Secretary or in Part 206 of the HUD regulations at 24 CFR.
6. If such a contract has been signed, the extent to which services under the contract may not be needed or may be available at nominal or no cost from other sources, including the mortgagee.
7. The Home Equity Conversion Mortgage will be due and payable when no remaining borrower lives in the mortgaged property, or when any other covenants of the mortgage have been violated. (Borrowers are those parties who have signed the Note and Mortgage or Deed of Trust.)

I hereby certify that the homeowner(s) listed above have received counseling according to the requirements of this certificate and the standards of the U.S. Department of Housing and Urban Development, as described in mortgagee letters, handbooks, regulations, and statute. This interview was held: ☐ Face-to-Face ☐ Telephone and the amount of time required to cover the above items was as follows: ________.

Counselor's Name (Printed):	HUD-Approved Counseling Agency Name:	
Counselor Name (Signature & Date):	Address (City/State/Zip)	
x	Telephone No:	Agency Employer Identification No:

Homeowner Certification:

I/we hereby certify that I/we have discussed the financial implications of and alternatives to a HECM with the above Counselor. I/we understand the advantages and disadvantages of a HECM and each type of payment plan, as well as the costs of a HECM and when the HECM will become due and payable. This information will enable me/us to make more informed decisions about whether I/we want to proceed with obtaining a HECM.

Homeowner Signature & Date:	Homeowner Signature & Date:
x	x

(All homeowners shown on the deed must sign the mortgage and this counseling certificate.)

Date Counseling Completed: ________

Certificate Expiration Date: ____________
(180 days from date HECM counseling completed)

form HUD-92902 (9/2006)

Eligible HECM Properties

HECM guidelines contain all the parameters which determine HECM eligibility for borrowers and properties. It is important to determine if the subject property is one of the eligible property types at the beginning of the application process.

Borrower's Principal Residence (Owner Occupied)

- The subject property must be the principal residence of each borrower.
- A principal residence is defined as the dwelling where the borrowers maintain their permanent residency a minimum of 183 days per calendar year.
- A person may have only one principal residence at any one time.

The subject property is considered to be the principal residence of any borrower who is temporarily or permanently in a healthcare institution as long as the subject property is the principal residence of at least one (1) other borrower who is not in a healthcare institution. The lender must be able to conclude that the subject property is the borrower's principal residence. At the discretion of Underwriting, additional documentation such as a signed tax return or IRS Tax transcripts obtained through an IRS Form 4506-T may be required to evidence principal residence of the subject property.

Refinance Transactions

For refinance transactions, all borrowers must occupy the subject property at the time of application and closing.

Purchase Transactions

For purchase transactions, the borrower(s) must occupy the subject property within 60 days of closing. In addition, if the borrower's current principal residence is a security property for a HECM, that loan must be paid in full prior to closing the new purchase transaction.

Property Type Chart

Property Type	Eligible	Ineligible
Single Family Residence	x	
2-4 Units	x	
Condos	The HOA must be FHA approved. If it is not, the borrower can still apply for a HECM. Mutual of Omaha Mortgage Condo Desk will help to get the HOA approved.	
Planned Unit Development (PUD)	x	
Modular Homes	x	
Manufactured Homes	Must be built according to HUD guidelines. Must be built after June 15, 1976: permanently affixed, no single-wide. Further guidelines will apply	
Mixed Use	Commercial cannot exceed 49% of GLA	
Mobile Homes		x
Commercial		x
Co-ops		x
Leasehold (Land Contract)	Currently brokered to other lenders	
Properties with Needed Repairs	Cosmetic only, otherwise repairs must be done prior to closing- Total repair set-aside cannot be more than 15% of the MCA	

Title Vesting

Properties Held in a Trust

Properties held in a trust are eligible for HECM financing as long as they meet the following parameters:

- The trust must be revocable
- The borrower does not have to be the trustee but does have to be the primary beneficiary of the trust
- Beneficiaries cannot have any rights to the property before the death of the primary trustees
- The beneficiaries must have the right to remain in the home
- Irrevocable trusts are permissible, dependent on the trust requirements

Borrower Agent (Guardian, Conservator, or Attorney in Fact - POA)

Transactions in which a borrower agent is used to sign on behalf of the borrower are eligible for HECM financing.

The Borrower Agent Must Meet the Following Guidelines:

- A valid guardian, conservator, or attorney in fact (POA) may sign documents on behalf of the borrower.
- POA's, guardians and conservators signing application documents must receive counseling.
- A letter from the borrower's doctor must be provided stating that the borrower was competent when they authorized the power of attorney document. (and must be durable)

Interest Rates

Although the interest rate is utilized differently than with a forward mortgage, it is important for you to be able to explain the components and function of the various rates associated with a reverse mortgage. There are two different interest rates that affect the reverse mortgage; the initial interest rate and the expected interest rate. Both rates will be explored in the following sections.

Index

The index represents the adjustable component of an ARM. The index is a statistic that indicates some current economic or financial condition.

Margin

The margin represents a fixed component of the fully indexed rate. The margin remains fixed throughout the life of the loan and is added to the index at each scheduled adjustment period to determine the fully indexed rate. The broker sets the margin.

Fully Indexed Rate

The sum of the index plus the margin is known as the fully indexed rate. This rate is an APR (annual percentage rate). Each month the loan balance is assessed interest at the fully indexed rate ÷ 12. Both the initial and expected interest rates are fully Indexed

Fixed Rate Mortgage

A fixed rate mortgage has an interest rate which remains constant throughout the life of the loan. It offers a sense of certainty for the borrower about how the loan will grow. All of the proceeds from the loan must be disbursed as a lump sum upon funding. This product cannot have a partially funded LESA.

Adjustable Rate Mortgage (ARM)

An adjustable rate mortgage (ARM) has an interest rate which changes periodically. With this option there is a variety of disbursement plans available for the client as to how they would like to receive their proceeds. Either a fully funded or partially funded LESA is available on this product.

Initial Interest Rate (IIR)

The following list provides details about the initial interest rate:

- Also known as the start rate or note rate
- Index is based on the 1 month or annual CMT
- Determines how interest accrues on the unpaid balance
- Only matters after funding
- Lifetime cap is 10% or 5% above the start rate (adjustable)
- Adjustable rate changes monthly or annually

Product Feature	HECM ARM	HECM Fixed
Index	1 month of annual CMT	Fixed
Margin	Refer to current pricing	Refer to current pricing
Rate Cap	10% above start rate 5% above start rate	N/A
Adjustment Period	Monthly or annually	N/A

Expected Interest Rate

The **expected interest rate (EIR)** is a factor used to calculate how much money the borrower will receive. The following list provides details about the expected interest rate.

- Also known as the start rate or note rate
- Index is based on the 1month or annual CMT
- Determines how interest accrues on the unpaid balance
- Only matters after funding
- Lifetime cap is 10% or 5% above the start rate (adjustable)
- Adjustable rate changes monthly or annually

Interest Rate Reference Guide

Although the interest rate is utilized differently than with a forward mortgage, it is important for you to be able to explain the components and function of the various rates associated with a reverse mortgage. There are two different interest rates that affect the reverse mortgage; the initial interest rate and the expected interest rate. Both rates will be explored in the following sections.

HECM Interest Rates		
Rate Feature	**HECM ARM**	**HECM Fixed**
AKA	Qualifying rate	Note rate or start rate
Index	10 year CMT swap	1 month or annual CMT
Fully Indexed	Index + margin	Index + margin
Affects	Loan amount borrower is eligible for (PLL)	Growth of loan balance Growth of LOC
Established	At loan application or closing	Closing

Maximum Claim Amount (MCA)

The **maximum claim amount (MCA)** is a factor used in calculating the borrower's PLL. The MCA is defined as the lesser of the appraised value of the subject property or FHA HECM lending limit. The current lending limit is $822,375.

Determining the Principal Loan Limit (PLL)

The principal loan limit (PLL) is the amount the borrower qualifies for. It is a portion of the maximum claim amount (MCA) that can be made available as funds to the borrower and is established at closing.

The three factors used to establish the borrower's PLL are as follows:

- Age of the youngest borrower or eligible non-borrowing spouse
- Maximum Claim Amount
- Expected Interest Rate (EIR)

The age of the youngest borrower is an important determining factor for the PLL. The younger the borrower, the lower the PLL afforded the borrower; the older the borrower, the greater the PLL. The system will round up the borrower's age if the borrower is within 6 months of their next birthday.

Principal Limit Lock

The EIR goes into effect on the date the borrower signs the application. The list below provides two key details for the application and execution of the principal limit lock.

- Lock period is 120 days from the date the FHA case # is assigned

  Note: The FHA case # is assigned after the borrower has completed HUD counseling and has signed the 1009 application.
- The EIR which provides the best PLL to the borrower will be used at closing.

Principal Loan Balance (PLB)

PLB Accumulation

Borrowers accumulate a principal loan balance (PLB) at closing.
The following items establish the initial PLB:

- Existing liens are paid
- Settlement charges are paid through the loan
- Initial cash advances are made to the borrower

PLB Growth

Once the PLB is established, the balance will grow monthly due to the following factors:

- Accrued interest (beginning the month after the loan funds)
- Monthly MIP
- Loan advances (term or tenure disbursements)
- LOC draws
- LESA disbursements

Determining the Principal Loan Balance	
Principal Loan Limit: $200,000 (Repair Set Aside or LESA would be deducted here): $0	
Available Principal Limit $200,000	
Available Principal Limit	**Principal Loan Balance**
Available Principal Limit (LOC) $115,000	Qualifying rate
Month 1 Available LOC: $115,000 Draw: $15,000 New Available Loan Limit: $100,000	**Month 1** Loan Balance: $85,000 Draw: $15,000 New Principle Loan Balance: $100,000
Each Month the available LOC grows at the note rate +0.50% ÷ 12 (minimum $100)	Each Month the PLB Grows with: Interest, MIP, Scheduled Payment Disbursements, LOC Draw, (LESA disbursements)

Line of Credit Growth Rate

If a borrower selects a payment plan with a line of credit (LOC) the unused portion of the LOC will grow.

Features of the LOC Growth:

- Only the unused or available portion will continue to grow
- LOC is the only structure that gives the client access to growth
- Once the client has used the LOC completely, there will be no more growth and the line closes
  - Minimum LOC balance is $100
- Annual growth rate = the initial rate plus 0.50%
- Monthly growth rate = annual growth rate ÷ 12

Disbursement Limits (Utilization Cap)

HUD has set an initial disbursement limit (utilization cap) on the HECM product. This initial disbursement limit (percentage) has been set to act as a safeguard measure for equity protection. The limitation only applies for the first 12 months of the loan. The first 12-month disbursement period begins on the day of loan closing and ends on the day before the anniversary date of loan closing. If the end day falls on a federally observed holiday or weekend, the end period will be on the next business day. (364 days)

The maximum disbursement allowed at loan closing and during the first 12-month disbursement period is the greater of **60% of the principle loan limit (PLL)** or **the sum of mandatory obligations plus an additional 10% of the PLL (up to 100% of the PLL).**

Mandatory Obligations

Mandatory obligations are fees and charges incurred in connection with the origination of the HECM that are paid at closing. To determine if the borrower will have access to the additional funds from the initial disbursement, the sum of the mandatory obligations must be determined.

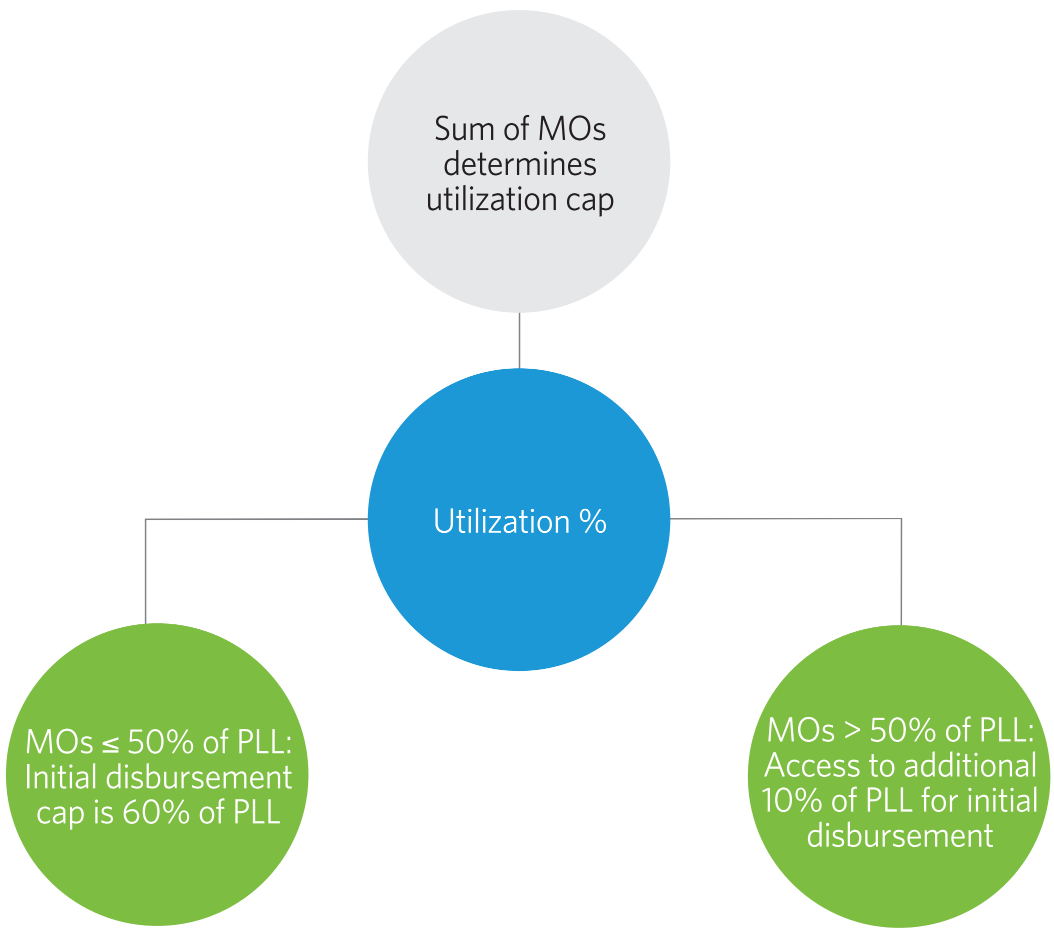
Mandatory Obligations	Other Closing Costs
Upfront MIP **Origination fee** **HECM counseling** (if the agency waives the fee, it is not included) **Repair Set-Aside** (includes costs of repairs and the repair administration fee) **Funds to pay off liens on the property** **Taxes and Insurance:** including amounts due within the first year, any amounts required to be paid by the lender at closing, and any funds in a set-aside for payment of taxes and insurance **Funds to pay delinquent Federal debt** **Fees and charges for warranties, inspections, surveys, and engineer certifications** **For purchases** - the amount of principal that is advanced towards the purchase price of the subject property	**Other closing costs** including but not limited to: **Recording fees** **Credit report** **Land survey** (if applicable) **Title examination** **Title insurance** **Appraisal fees**

Mandatory Obligations Relating to Utilization

To determine if the borrower will have access to the additional funds from the initial disbursement, the sum of the mandatory obligations (MO) must be determined.

The sum of the borrower's MOs determines the utilization percentage.

- If the sum of the mandatory obligations exceeds 50% of the principal loan limit (PLL), the borrower may take an additional 10% of the PLL amount (up to 100% of the PLL) either upfront or during the first 12 months.
  - The borrower must declare at closing their intent to take the 10% in order for the correct amount of initial MIP to be calculated.
  - It is important to note that the borrower is not required to take the additional 10%.
- If the sum of the mandatory obligations does NOT exceed 50% of the principal loan limit (PLL), the initial disbursement cannot exceed 60% of the PLL.



MIP Charges

Upfront and monthly MIP charges are contained in the following list:

Upfront MIP

- One-time fee
- Charged at funding (included in the initial loan balance)
- .5% or 2% of the MCA depending on percentage of utilization

Monthly MIP

- .50% charged annually
- Added monthly to the PLB (PLB x .50%/12)

Available Funds Relating to Product

Once the mandatory obligations are calculated, the borrower is able to receive the remaining funds (if any) of the disbursement allotment. The borrower may receive the funds all at closing, or a partial amount at closing and the remaining funds later within the year.

There are only 2 HECM loan product types available to the borrower:

- The ARM product (adjustable rate loan)
- The fixed product (the rate never changes)

For Adjustable Rate Mortgage loans:

- The borrower will have access to all remaining funds in excess of the utilization limit after the 12-month disbursement period is over.
- The borrower is limited to 60% of the PLL or the sum of MO plus 10% of the PLL, whichever is greater

For Fixed Rate loans:

- The borrower is only able to receive all available funds at closing in a single lump sum.
- The borrower is limited to 60% of the PLL or the sum of MO plus 10% of the PLL, whichever is greater.
- The borrower will not have access to additional funds even after the 12 month disbursement period is over.

Types of Closing Costs

**HUD regulates the closing costs we are permitted to charge the borrower.
The following are the three main types of closing costs:**

- Origination fee
- Upfront MIP
- Third party settlement charges

Costs associate with the HECM loan (e.g., origination fee, IMIP, etc.) must be paid by the buyer.

- Seller cannot pay any pre-paids
- Taxes and HOA fees must be prorated
- Seller can pay for the home warranty, the owner's title policy (if title confirms in writing that this is common and customary for the area

Origination Fee

To determine the origination fee:

Multiply 2% of the first $200,000 of the maximum claim amount and 1% of whatever amount is remaining.

Example: Determining the origination fee:

MCA = 325,000

2% x first $200,000 = $4,000

1% x (remaining amount) $125,000 = $1,250

Total Origination = $5,250 ($4,000 + $1,250)

Minimum is $2,500 regardless of MCA (home value)

Maximum is $6,000 regardless of MCA (home value)

HECM Payment Plan Options

The following table contains details about the various payment plan options available to the borrower.

HECM Payment Plan Options	
Payment Plan	**Description**
Line of Credit	Borrower funds are available as needed upon written request. The unused portion grows at the note rate plus 0.50%.
Tenure	Borrower receives all funds in fixed monthly payment for as long as they remain in the home.
Modified Tenure	Borrower receives a lower fixed monthly payment and a line of credit for as long as they remain in the home.
Term	Borrower receives fixed monthly payment for a fixed period or term. X amount a month for Y months.
Modified Term	Borrower receives a fixed monthly payment for a fixed period or term and a line of credit for as long as they remain in the home.
Lump Sum	Borrower receives all funds at funding.
Partial Lump Sum	Borrower receives a portion of their available funds at closing. The remaining funds are distributed as one of the other payment plan options.

Changing a Payment Plan

In order to close a reverse mortgage, your borrower will need to select a specific loan program and payment plan. The borrower can change their initial payment plan if they so choose at a later date.

The following is list of parameters which apply to changing the payment plan post funding:

- A written request must be faxed to the servicer.
- A small fee will be charged to the borrower's loan balance.
- The borrower can request as many changes as they would like.

Repair Set Aside

The HECM program may allow a loan to close with needed repairs. The repairs are detailed in the repair rider which your borrower will receive at closing. In order to assure that financing will be available for the repairs, a repair set aside is established.

Details of the repair set aside are provided in the following list:

- Required repairs are determined by the underwriter.
- Funds for these repairs are held in a set aside created from the borrower's available principal loan limit.
- The repair set aside funds will be released once a compliance inspection report has been received by the repair administrator.
- Repairs must be completed within 6 months of closing.
- The amount of the set aside is included in the borrower's mandatory obligations.
- The minimum repair set-aside amount is $500.00. Repairs under $500.00 must be completed prior to closing.
- Appraiser cost-to-cure is typically acceptable for simple/cosmetic repairs. More extensive repairs or repairs that require a bid from a professional in a specific field will require a licensed contractor bid.
- Appraiser cost-to-cure bids will be padded at 2x the stated bid, while contractor bids require a 1.5x

Total repair costs cannot exceed 15% of the MCA.

Title

A title search and title insurance are required on each reverse mortgage transaction. There are some distinct differences in title between a reverse mortgage and a forward mortgage.

The following is a list of unique title qualities:

- Insurance must be for the maximum claim amount
- Two liens are created:
  - Lender
  - HUD
- Each lien will be for 1.5x of the MCA
- 2nd Lien to HUD allows HUD to easily step in and continue making payments to the borrower in the event of lender default

Prepayment

A borrower may prepay all or part of the outstanding balance at any time without penalty. Repayment in full will terminate the loan agreement.

The loan is repaid in the following order:

- First, to that portion representing accrued mortgage insurance premiums
- Second, to that portion representing servicing fees (if applicable)
- Third, to that portion representing accrued interest
- Fourth, to the remaining portion of the principal balance

If the loan balance reaches $0, it will close out the loan.

Rescission Period

Federal law requires lenders to offer a rescission period for each reverse mortgage transaction (this does not apply to purchase transactions). The following is a list of borrowers' rights during the rescission period:

- The borrower has the right to cancel the loan without penalty within 3 business days of closing, including Saturdays
- The loan is not funded until the end of the rescission period

Glossary

Term	Definition
Counseling	Third party counseling is a requirement to do a reverse mortgage. The counselor's job is to educate the senior about reverse mortgages, to inform them of alternative options available to their given situation, and to assist in determining which particular reverse mortgage product best fits their needs.
12-month Disbursement Period	The First 12-month disbursement period begins on the day of loan closing and ends on the day before the anniversary date of loan closing. If the end day falls on a federally observed holiday or weekend, the end period will be on the next business day.
Durable Power of Attorney (POA)	A legal document that enables an individual to designate another person to act on their behalf even in the event the individual becomes disabled or incapacitated. It is durable by the letter provided by the doctor stating the mental capacity of the borrower.
Expected Interest Rate (EIR)	Used to calculate how much money the borrower will receive and based on the 10 year CMT rate plus an acceptable Margin.
Federal Housing Administration (FHA)	Federal Housing Administration insures lenders against loss in the event that borrowers default on their loans. They are a division of HUD.
FHA Case Number	This establishes the FHA connection to the property and this number stays with the property until the loan is satisfied.
Forward Mortgage	A traditional mortgage where the borrower makes monthly payments and pays the balance down over time.
Fully Indexed Rate	The note rate that comes from the margin and the index added together.
Growth Rate	The rate at which the unused portion of the line of credit grows. On the HECM it grows at the (note rate + .50%)/12.
HECM	The FHA insured reverse mortgage. Home Equity Conversion Mortgage.

Glossary (Continued)

Term	Definition
HECM ARM (Adjustable Rate Mortgage)	The FHA reverse mortgage in which the note rate adjusts periodically, there are monthly and annually adjusting HECM's.
HECM Fixed	The FHA reverse mortgage where the note rate is fixed for the entire term of the loan. Cash to the borrower is only available in a single lump sum.
HUD	Department of Housing and Urban Development. Works as a lending facilitator and helps borrowers by offering counseling services to potential mortgage clients.
Initial Interest Rate (IIR)	The actual interest rate on the loan, changes monthly, and is based on the 1 Month CMT plus an acceptable margin.
Index	It is the moving part of the fully indexed rate; on adjustable mortgage, this change monthly.
Irrevocable Trust	A trust that cannot be changed or canceled once it is set up without the consent of all trustees and beneficiaries.
Leased Property	The ownership of the land where a structure resides rests with anot-her party not the owner of the structure.
Constant Maturity Treasury (CMT)	The most common index used on adjustable rate mortgages. An index published by the Federal Reserve Board based on the monthly average yield of a range of Treasury securities, all adjusted to the equivalent of a one-year maturity.
Line of Credit (LOC)	A Reverse Mortgage Benefit Option that allows the borrower to make draws against the equity of their home. The benefit on this option also has the opportunity to grow larger over time. On the HECM, the unused portion of the Line of Credit grows at the note rate plus .50% monthly.
Lump Sum	A Reverse Mortgage benefit option in which the borrower receives all available funds at closing.
Manufactured Home	Formerly referred to as mobile homes or trailers, manufactured housing units are built in factories and transported to the sites for use. They conform to a Federal building code (HUD code), rather than to the building codes at their destinations.

Glossary (Continued)

Term	Definition
Margin	The amount of interest a lender adds to the monetary instrument to come up with the fully indexed rate on an adjustable rate mortgage.
Maturity Event	A maturity event is an event that triggers loan repayment or result in the mortgage being called due.
Max Claim Amount (MCA)	A factor used in calculating the borrower's benefit amount. The MCA is the lower of the appraised value of the subject property and the FHA lending limit ($822,375).
Mandatory Obligations	Mandatory obligations are fees, liens and charges incurred in connection with the origination of the HECM that are paid at closing.
Mobile Home	Housing units built in factories rather than on site produced prior to the 1976 HUD code enactment. They are generally referred to as "single-wide" or "double-wide".
Modular Home	Homes built in multiple modules of sections at a, factory, then delivered to their intended site of use and assembled. Modular homes are built to conform to all state, local, or regional building codes at their destinations. Modular Homes are considered Single Family Homes.
Non-Recourse Loan	The feature of the loan that provides the following: - borrower will never owe more than the home is worth at the time the loan is due - the heirs will never inherit a debt (unless they wish to keep the home) - the borrower will continue to receive beneifts of the loan if the lender ceases to exist
Note Rate	The actual rate of interest accrual of the loan, also known as the start rate.
Origination Fee	The broker charge for originating the loan (maximum allowable origination fee is $6,000.
Principal Loan Balance (PLB)	The starting balance of the loan. This amount includes monies to pay of liens, closing costs, upfront MIP, upfront cash to the borrower and any other costs financed into the loan.

Glossary (Continued)

Term	Definition
Principal Loan Limit (PLL)	The gross amount that a borrower(s) will qualify for with a reverse mortgage, also known as the benefit amount or loan amount.
Principal Limit Lock	Locks in the client's benefit amount and is secured from when the client signs the application and extends to 120 days past the opening of the FHA case number. The lender will use the EIR that will provide the highest benefit amount to the borrower.
Principal Residence	A principal residence is defined as the dwelling where the borrowers maintain their permanent residency a minimum of 183 days per calendar year.
Planned Unit Development (PUD)	A project or subdivision that includes common property that is owned and maintained by a homeowners association for the benefit and use of the individual PUD unit owners.
Rate Cap	The maximum rate an adjustable rate mortgage can adjust to. The annual adjustable HECM has a 2% annual and 5% lifetime cap. The monthly adjustable has no annual cap and a 10% lifetime cap over the start rate.
Repair Set Aside	A portion of the Principal Loan Limit withheld until necessary repairs are completed as a condition of closing the loan. Once the repairs have been completed and approved, this portion of the Principal Loan Limit will become available to the borrower.
Revocable Trust	A trust in which any of its provisions can be changed, or the trust itself can be canceled at any time by the grantor, also known as a living trust.
Utilization Limit	The utilization limit is the portion of the Principal Loan Limit which the borrower can access within the first 12-month disbursement period.