

FINANCIAL ASSESSMENT

Extenuating Circumstances

Where the borrower's **credit and/or property charge payment history does not meet the criteria** described in the HUD guidelines (refer to the credit guidelines job aid for specifics) the lender must consider extenuating circumstances that led to the credit issues. If one or more **extenuating circumstances** apply to the borrower and are **supported with valid documentation acceptable to the Underwriter, then a fully funded LESA is not required. The use of documented extenuating circumstances is the only way to avoid a fully funded LESA when credit issues are present.**

Because the circumstances for every borrower will be different, HUD can only provide **guidelines for the documentation to support the situation.** These documentation guidelines will apply to all loans with an extenuating circumstance.

Documentation of extenuating circumstances must demonstrate all of the following:

- The connection between the **specific occurrence and the measurable impact** of the occurrence on the borrower's finances

The situation must coincide with dates of missed payments and must be significant enough to have an impact on the borrower's ability to fulfill their financial obligations.

- That **no other actions taken by the borrower contributed to the derogatory items** (i.e. assuming new financial obligations, voluntarily reducing employment hours, etc.)
- The **likelihood that these circumstances will not recur** (i.e. a death of a spouse would not be a recurring situation). When assessing whether or not a circumstance is likely to recur, **the underwriter will consider the positive impact of the HECM on the borrower's finances**
- The **borrower demonstrates financial liquidity through non-HECM assets**, additional sources of income, access to revolving credit or other factors that are present that enhance their ability to endure financial challenges.

Extenuating circumstances beyond the borrower's control may include, but are not limited to:

- **Loss of income due to the death or divorce of a spouse** that directly resulted in late payments
- Loss of income due to the borrower's or spouse's unemployment, reduced work hours or furloughs, emergency medical treatment or hospitalization that directly resulted in late payments
- Increase in financial obligations due to emergency medical treatment or hospitalization for the borrower or spouse, emergency property repairs not covered by insurance, divorce, or other causes that directly resulted in late payments of obligations

For example, if a borrower cited loss of income due to unemployment as the cause of late payments, the documentation would show the following:

- The credit report indicates that the borrower had satisfactory credit prior to being unemployed
- The borrower's documented income, including any unemployment compensation received, was insufficient to make timely payments on all outstanding accounts
- The credit report indicates that the borrower did not incur new debt that contributed to the borrower's inability to meet all obligations in a timely manner
- The borrower is employed again and/or has alternate sources of income

