Mutual of Omaha REVERSE WHOLESALE

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# Using Compensating Factors

By now, most reverse mortgage professionals know what compensating factors are and the basics on using them, so let's take a deeper look on ways to use them that you may not have thought of before. The four below are available to all borrowers (not when getting a SUA on a condo).

1. **Eligible Non-Borrowing Spouse Income** – Remember that jointly held debt has been charged against our borrower, this compensating factor allows us to add the NBS's income together with our borrower's. Run their credit and document their income just like they were a borrower!
2. **Overtime, Seasonal, Part-time or Bonus Income** - Many of our clients have made a career change in the recent past. They may have retired from their full-time job, maybe they changed careers to do "what they always wanted to." What are they doing now? Are they working a part-time job?
3. **Expected SSI or Pension Income** – Has your borrower already applied for Social Security? If not, are they planning to? You can assist them getting the Awards Letter (current or future) using our *MySSA* job aid. If the date is within 12 months, we can use that income.
4. **Imputed Income from HECM** – The most popular and the easiest. Divide the net Principal Limit by the life expectancy (in months) of the youngest borrower!

## The 80% Compensating Factors

Not all compensating factors can be used all the time. Four of them can only be used if the borrower's RI is at least 80% of the required amount for their region and family size. For instance, since a family size of two in the South or Mid-West requires $886, the borrower(s) must have RI of at least $709 to use "all" the compensating factors. What happens if your borrower(s) isn't up to 80%?

**Getting to 80%**
Assets are "real money," that means you can supplement effective income with assets. Even a small amount of assets can be dissipated so that residual income reaches 80% and then ALL compensating factors are "on the table."

### Property Charge Payment History - The Three-Parter!

We know that we can't count support that our borrower's kids or other relatives provide in the form of financial assistance. But this comp factor may assist in a roundabout way.

1. Paid property charges past two years, directly (without an escrow account)
2. All property charges paid on time for the past two years (12 months for HOI)
3. Their income has not declined in the past two-years.

These all might be true, especially if a family member helps with paying bills on behalf of our borrower, so don't forget to check this out!

### Access to Other Credit

Does the borrower have a credit card that they use for emergencies? Check the credit report, have they had the card for at least 6 months? Have they paid the bill in full for six months? If so, this can be a compensating factor that can be used.

### Assets Equal to Life Expectancy Property Charges

Rarely used, since it applies to partial LESA which are rarely used. If a partial LESA is called for, and the borrower has assets equal to the LESA the LESA can be avoided. Often Asset Dissipation, is the way to go instead!

### HECM Sufficient to Pay Off Debts

We all know HUD does not allow us to pay off other debt from HECM proceeds, but this compensating factor can work "virtually." Instead of dissipating HECM proceeds, this may pack more "bang for the buck."

**HECM Sufficient to Pay Off Debts**
*Example*
$12,000 in HECM proceeds only gets a 77-year-old $100 per months. But if they have a car loan with a balance of $12k or less if the payment is more than $100 use this comp factor instead.