Brown - HECM / Reverse Product Guidelines

PRODUCTS & UNDERWRITING GUIDELINES

Loan Parameter	HECM Fixed	Variable Rate HECM
Youngest Borrower Age Eligibility	62 years and above	
Occupancy Allowed	Owner Occupied, Primary Residence	
States Allowed	Loans are accepted in all states except IL, VT, NC, and GA.	Loans are accepted in all states except IL, NC, and GA.
Property Type	1-4 Unit, Condos, Manufactured Homes (Single Wides NOT allowed), PUDs **Note:** • Special Interest or pricing for Manufactured Homes and Log Homes may apply • Properties located in Coastal Barrier Resource System are ineligible	
Counseling Requirement	HUD Approved HECM Counselor	
Loan Purpose Allowed	Purchase and Refinance **Note:** HECM Purchase is not allowed in TX	
Additional Requirement for Non HECM to HECM Refinance	As per the guidelines outlined by HUD Mortgagee Letter 2014-21, effective for FHA Case Numbers assigned on or after December 15, 2014, in case of Non HECM to HECM refinance loans (i.e. where the borrower is refinancing a Non-HECM loan attached to the subject property with a HECM loan), the following two documents will be required. 1) A copy of the HUD-1/ Closing Disclosure (Settlement Statement) for the existing lien attached to the subject property 2) If the existing lien attached to the subject property is a Home Equity Line of Credit (HELOC), then a copy of the most recent HELOC statement or its equivalent. The loan will not meet the guidelines outlined by HUD Mortgagee letter 2014-21, if (i) the existing lien attached to the subject property is less than 12 months old as verified from the HUD-1/ Closing Disclosure (Settlement Statement) and (ii) the borrower has received more than $500 cash at closing or through cumulative draws prior to the date of the initial HECM loan application as verified from the HUD-1/ Closing Disclosure (Settlement Statement) and if applicable, the HELOC statement. In such case, the loan will be declined.	
Minimum Credit Score	Not Applicable	
Min. Loan Amount	$100,000	

Note: All Products Revised on 03/04/2016.

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Loan Parameter	HECM Fixed	Variable Rate HECM
Max. Claim Amount	$625,500 **Note:** For HECM Purchase it is the lower of the $625,500, the Appraised Value and the Purchase Price	
Available Rates/Margins	Refer to our current Rate Sheet for the best rates and margins.	
Subordinate Financing	NOT Allowed	
Property Vested in Trust	Allowed – Must meet HUD guidelines	
Acceptable Type of Ownership	• Fee Simple • Leasehold (lease for no less than 99 years that is renewable, or under a lease having a remaining term of not less than 50 years beyond the 100th birthday of the youngest borrower) (If property is leasehold then a letter executed by a licensed attorney confirming that the lease meets all HUD leasehold guideline as outlined in Section 6-32 of HUD Handbook 4150.1) • Life Estate	
Tradelines	NA	
Bankruptcy	• If the borrower is involved in an active bankruptcy at the time a HECM is being originated, approval from the Trustee must be obtained in order to proceed.	
Appraisal Order	Must be ordered by American Lending or though American Lending approved Appraisal Management Companies.	
Special Appraisal Guidelines	• Should be FHA approved at the time of assignment and completion of the appraisal. • Should not be in the American Lending Appraiser Exclusionary List	
Repairs	• American Lending would provide the client with the required repairs as needed by the appraiser. • The client would need to confer with the borrower if the repairs would be done prior to closing or as a set-aside after the closing of the loan. • Where major property deficiencies threaten the immediate health and safety of the homeowner and/or jeopardize the soundness and structural security of the property (including mold and strapping of the water heater), the repairs must be completed prior to closing. • All CIRs or 1004Ds Appraisal Update for confirmation of completion of repairs would be ordered by American Lending prior to closing.	
Repair Set-asides	Allowed	
Origination Fees	The loan origination fee limit will be the greater of $2,500 or two percent of the maximum claim amount of the mortgage, up to a maximum claim amount (MCA) of $200,000, plus 1% of any portion of the maximum claim amount that is greater than $200,000. The total amount of the loan origination fee may	

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	not exceed $6,000.	
Discount Points	Not Allowed	
Special Fees	No UW Fee. Only a Doc fee of $115 ($215 for Texas; No Doc fee is charged for California)	
Re-disclosure for Increasing Margins / Interest Rate	Interest Rate Increase is Permissible only if: 1) The most recent GFE disclosed does not show that the rate is locked 2) The borrower is sent a re-disclosed TIL showing the change in the APR.	Not Allowed on loans underwritten by American Lending.
Cash Out on Short Pay-Off	Not Allowed	
Interest Rate Type	Fixed	Monthly Adjustable
Payment Plans	Single Disbursement Lump Sum payment options paid at closing	Term, Tenure, Modified Term, Modified Tenure and Line of Credit
Mortgage Insurance Premium (MIP)	• If initial disbursement at closing and during the first 12 month disbursement period is less than or equal to 60%, then initial MIP is 0.50% and annual MIP is 1.25% • If initial disbursement at closing and during the first 12 month disbursement period is greater than 60%, then initial MIP is 2.50% and annual MIP is 1.25%	
Initial Disbursement Limit	• Disbursement limits for case numbers Issued on or after, September 30, 2013: Greater of sixty percent (60%) of the Principal Limit; or the sum of Mandatory Obligations plus ten percent (10%) of the Principal Limit. Disbursements must not exceed Net Principal Limit or Principal Limit.	
Non-Borrowing Spouse	Effective for FHA case numbers assigned on or after 08/04/2014, American Lending is accepting the HECM loans with non-borrowing spouse. HECM loans with non-borrowing spouse must comply with all FHA's requirements as specified in the Mortgagee Letter 2014-07. Some of the important requirements are: • The non-borrowing spouse does not have to be 62 years old. A non-borrowing spouse, who is less than 62 years old, is acceptable to be on the HECM loan provided the borrower meets the HECM eligibility of 62 years of age. • An eligible Non Borrowing Spouse is legally married to the borrower, and stays at the subject property. An ineligible Non Borrowing Spouse is legally married to the borrower, and but does not stay at the subject property. • The principal limit will be based on the age of the younger of the borrower and the eligible non-borrowing spouse – so if the borrower is 62 years old and the eligible non-borrowing spouse is 55 years old, the principal limit will be based on the age of the eligible non-borrowing spouse i.e. 55 years in the above example. When determining the principal limit, age of any ineligible Non-	

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	borrowing spouse will not be used. • The non-borrowing spouse (both eligible and ineligible) must attend the HECM Counseling Session along with the borrower and sign and date the HECM Counseling Certificate. • A proof of date of birth of the non-borrowing spouse must be submitted along with the application package. The borrower and the eligible non-borrowing spouse must sign the certifications as required by the Mortgagee Letter 2015-02 at closing. The borrower and the ineligible non-borrowing spouse must sign the Notice to Non borrowing Resident and Ownership Interest Certification.	
Non Borrowing Residents	• The correspondent should speak to the Non Borrowing children (children of a prospective HECM borrower, who do not qualify for a HECM, but who currently reside on the real estate, or who are on the title for the real estate that will serve as the security for the FHA-insured HECM) to discuss the implications of not putting their name on the loan. The entire conversation should be thoroughly documented. • The correspondent should speak to the Non Borrowing Resident to discuss the implications of not putting their name on the loan. The entire conversation should be thoroughly documented. • Any person, who has quit claimed his/her interest in the subject property in the immediate six months prior to the date of application, must attend the HECM Counseling Session and sign and date the certificate. • They also must sign "Notice to Non Borrowing Spouse or Resident" and "Ownership Interest Disclosure"	
Property Seasoning requirements	• If the borrower purchased the property in less than or equal to 12 months from the *case assignment date*, then we will take the lower of the current appraised value or the original purchase price. • However, if the difference between the Current Appraised value and the Original Sale Price is less than 15%, we can use the current appraised value for the loan transaction and would not consider the Original Sales price. A request for waiving the seasoning overlay may be placed with SWMC management if supporting documentation (actual contractor bills proving the dollar amount of updates made to the subject property after it was acquired by the borrower) is submitted. • The funds to cover the short fall between the net principal limit and the mortgage payoff must be properly sourced if the Original Sales price is considered.	
Property Flipping Waiver (Purchases)	• 90 day flips are not allowed on HECM Purchase Loans as the waiver does not apply to HECM purchases. • Only current owners of record may sell properties that will be financed using FHA-Insured Mortgages. • Any re-sale of a property may not occur 90 of fewer days from the last sale to be eligible for FHA financing. • For re-sales that occur between 91 and 180 days where the new sale price exceeds 100% of the previous sale price, FHA will require additional documentation validating the property value.	

<table>
<tr><th>Loan Parameter</th><th>HECM Fixed</th><th>Variable Rate HECM</th></tr>
<tr><td>HECM – HECM Refinance</td><td colspan="2">Benefit Factor: HECM to HECM refinance must provide the borrower with a minimum of 5 times the HECM to HECM refinance benefit factor (difference between new and existing principal limit should be at least 5 times the sum of closing cost and servicing set asides).</td></tr>
<tr><td>Financial Assessment and Life Expectancy Set Aside</td><td colspan="2">Effective with case numbers assigned on or after April 27, 2015, HUD requires a Financial Assessment to be completed for each prospective borrower as part of the HECM loan approval (Mortgagee Letter 2014-21 and 2014-22).
The Financial Assessment will include:
Documenting and verifying credit, income, assets and property charges
Evaluating extenuating circumstances and compensating factors
Analyzing credit history/property charge payment history and calculating cash flow/residual income
Completing a HECM Financial Assessment Worksheet
Based on the results of the Financial Assessment, a Partially- or Fully-Funded Life Expectancy Set-Aside may be required.
The Life Expectancy Set-Aside is the amount withheld from the proceeds of the HECM for the projected payment of property charges during the life of the borrower and will be calculated based on the following:
The life expectancy of the youngest borrower;
The HECM expected average mortgage interest rate;
The sum of the current property taxes and homeowners and flood insurance premiums; and
A factor to reflect increases in tax and insurance rates.
Fully-Funded Life Expectancy Set-Aside: may be required for both adjustable and fixed interest rate HECMs and Sun West will be responsible for making timely property tax and insurance payments.

Partially-Funded Life Expectancy Set-Aside: may be required for adjustable interest rate HECMs only and the borrower will receive semi-annual payments from Sun West, which must be used to make timely property tax and insurance payments.</td></tr>
<tr><td>Servicing Fee</td><td colspan="2">$0 to $30</td></tr>
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DISCLAIMER

- This information is provided as information for licensed Correspondents Clients only and may not be copied or distributed to customers or potential customers.
- All loans are subject to approval. Certain restrictions may apply. Rates and prices are subject to change.

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GENERAL REQUIREMENTS

Summary of the clarifications and the additional information related to HECM (Home Equity Conversion Mortgage) provided by HUD (U.S. Department of Housing and Urban Development
The U.S. Department of Housing and Urban Development (HUD) conducted a webinar session on September 23, 2015, which provided further clarifications and important reminders related to the HECM Financial Assessment and Property Charge Set Asides. Below, please see the summary of the clarifications and the additional information provided by HUD in the webinar session.

- HUD requires that the borrower must document 24 (twenty four) months of property charge payment history for all the properties owned by the borrower, including the previous principal residence, if the borrower has changed the principal residence in the past 24 (twenty four) months.
- HUD states that only the debts attached to the subject property can be paid at the closing of a HECM.
  - The non-real estate debts (revolving, installment or other debts) not attached to the subject property cannot be paid off at the time of closing of a HECM.
- HUD states that the compensating factors may not be used to support the loan approval if the credit and the property charge payment history standards outlined by HUD Mortgagee Letter 2014-21 and 2014-22 are not met.
  - Compensating Factors are limited to those listed in the section 4.2 of the HECM Financial Assessment and Property Charge Guide. No additional compensating factors other than those listed in the section 4.2 are acceptable.
- HUD states that the extenuating circumstances may not be used to support loan approval if residual income standards are not met.
  - Extenuating Circumstances are NOT restricted to those mentioned in section 4.1 of the HECM Financial Assessment and Property Charge Guide.
  - Circumstances that meet the following criteria can be considered as extenuating circumstances provided adequate and satisfactory documentation is included in the loan file.

1. There is a connection between the circumstance and the measurable impact on finances;
2. Action of the borrower did not contribute to the circumstance (e.g., assuming new financial obligations, voluntarily terminating employment or reducing hours, etc.);
3. The circumstance is not likely to recur; and
4. The borrower has access to other financial resources that enhance the ability to meet future financial challenges

- HUD clarifies that the unused HECM proceeds (which are not used for paying off the mandatory obligations) can be considered as dissipated asset and can be used in the calculation of the residual income.
- HUD states that in cases of a residual income shortfall or negative residual income, a HECM loan can be approved provided the following conditions are met:

1. The borrower has satisfactory property charges payment and the debt payment history and the Fully Funded Life Expectancy Set Aside (LESA) or the Partially Funded LESA is sufficient to completely mitigate the residual income shortfall;

a. it must be noted that if the $ amount of the Partially Funded LESA (calculated as per the formula provided in the HECM Financial Assessment and Property Charge Guide) is 75% or more of the $ amount of the Fully Funded Life Expectancy Set Aside, then Fully Funded LESA must be used in place of Partially Funded LESA;

2. The borrower has satisfactory property charges payment and debt payment history and the documented compensating factors are sufficient to completely mitigate the residual income shortfall;

a. it must be noted that if the compensating factors are used to mitigate the residual income shortfall then LESA is not required;
b. it must also be noted that to use satisfactory property charges payment history as the compensating factor, the borrower's residual income must be at between 80% - 99% of the standard residual income for the family size and the region in which the subject property is located;

3. The borrower has satisfactory property charges payment and debt payment and the documented compensating factors mitigate a portion of the residual income shortfall and Fully Funded LESA mitigates the remaining residual income shortfall.

EXAMPLES

1. The borrower has satisfactory debt and property charges payment history. The borrower has a residual income shortfall of $500.00. The borrower will receive sufficient HECM proceeds to pay off all the revolving and installment debts after closing of the HECM loan. This will reduce the borrower's monthly expenses by $600.00.

   - With this compensating factor of sufficient HECM proceeds reducing the borrower's monthly expenses by the amount more than the shortfall amount, there will be no residual income shortfall. In such a case, the loan may be approved.

2. The borrowers, husband and wife, have satisfactory debt and property charge payment history. The residual income of the borrowers is $772.00 and the required residual income for a family size of 2 is $906.00. The borrowers have a residual income shortfall of $134.00. The amount of the Partially Funded LESA is $16,743.00 and the Fully Funded LESA is $50,501.00. The Fully Funded LESA and/or the Partially Funded LESA, both are sufficient to completely mitigate the residual income shortfall.

   - In this case, the $ amount of the Partially Funded LESA is 33.00% of the $ amount of the Fully Funded LESA. The loan may be approved with the Partially Funded LESA.

3. The borrowers, husband and wife, have satisfactory debt and property charge payment history. The residual income of the borrower is $662.00 and the required residual income for a family size of 2 is $886.00. The borrowers have a residual income shortfall of $224.00. In other words, the residual income of $662.00 is 74.72% of the standard residual income of $886.00 for the family size and the region. The $ amount of the Partially Funded LESA is $30,132.00 and the $ amount of the Fully Funded LESA is $31,628.00.

   - In this case, the $ amount of the Partially Funded LESA is 95.00% of the $ amount of the Fully Funded LESA. The satisfactory property charges payment history cannot be used as the compensating factor because the borrowers' residual income is not between 80% - 99% of the standard residual income for the family size and the region in which the subject property is located. In this case, the loan can be approved with Fully Funded LESA.
   - HUD states that if the residual income shortfall cannot be mitigated by the compensating factors and/or the Fully Funded LESA, then a HECM loan cannot be approved – because in such a case, a HECM is not a sustainable solution to the borrower's circumstances.

EXAMPLES

1. The borrower has satisfactory property charges payment and the debt payment history. The borrower has a monthly residual income shortfall of $500.00. The monthly $ amount of the taxes and insurance is $250.00. There are no compensating factors or extenuating circumstances.
   - In this case, even if the Fully Funded LESA is used, the borrower's expense will reduce only by $250.00. The borrower's residual income will still be short by $250.00($500.00-$250.00). Such a loan cannot be approved in spite of the satisfactory property charge payment history because the residual income shortfall cannot be mitigated.

2. The borrower has satisfactory property charges payment and the debt payment history. The borrower has a monthly residual income shortfall of $500.00. Paying off the borrower's revolving and installment debts through HECM Proceeds after closing of the HECM will reduce the borrower's expenses by $100.00. The monthly $ amount of the property taxes and insurance is $292.00.
   - In this case, even after paying off the revolving and installment debts in the amount of $100.00 and using the Fully Funded LESA, the borrower's residual income will still be short by $108.00 ($500.00 - $100.00 - $292.00). Such a loan cannot be approved in spite of the satisfactory property charge payment history because the residual income shortfall cannot be mitigated.

3. The borrower does not have satisfactory debt and property charge payment history. There are no documented extenuating circumstances. The borrower has a residual income shortfall of $500.00. The monthly $ amount of taxes and insurance is $350.00. The borrower will receive sufficient HECM proceeds to pay off the revolving and the installment debts. This will reduce the borrower's monthly expenses by $600.00.
   - In this case, with Fully Funded LESA, the borrower's monthly expenses will be reduced by $350.00. This will not be sufficient to completely mitigate the residual income shortfall of $500.00. With the compensating factor of HECM proceeds sufficient to reduce the monthly expenses by $600.00, there will be no residual income shortfall. However, this compensating factor cannot be used. HUD states that the compensating factors may not be used to support loan approval if the credit and the property charges payment history standards are not met. In this case, since the borrower does not have satisfactory debt and property charge payment history, the loan cannot be approved.

4. The borrower has satisfactory property charges and the debt payment history. The borrower has a monthly residual income shortfall of $638.00. The $ amount of the Partially Funded LESA is $86,077.00 and the $ amount of the Fully Funded LESA is $41,150.00. The $ amount of the monthly real estate taxes and insurance is $305.00.

   - The $ amount of the Partially Funded LESA is 75.00% or more as compared with the $ amount of Fully Funded LESA. Therefore, Fully Funded LESA must be used in this case.
     Even after using Fully Funded LESA, there will be a residual income shortfall of $333.00 ($638.00 - $305.00). Such a loan cannot be approved in spite of the satisfactory property charge payment history because the residual income shortfall cannot be mitigated.

5. The borrower has satisfactory property charges and the debt payment history. The borrower has a residual income shortfall of $700.00. The borrower would receive sufficient HECM proceeds to pay off the revolving and the installments debts after closing. This will reduce the borrower's monthly expenses by $500.00. The $ amount of the monthly taxes and insurance payment is $250.00.
   - In this case, with the Fully Funded LESA, the borrower's monthly expenses will reduce by $250.00. Additionally, since the borrower has satisfactory property charges and the debt payment history, the compensating factor of HECM proceeds sufficient to reduce the monthly debt by $500.00 can be used. With the combination of the Fully Funded LESA and the compensating factor of the sufficient HECM proceeds, the residual income shortfall can be completely mitigated. A HECM is thus a sustainable solution for this borrower. Such loan can be approved.