

Course Title: H4P, A Realtor's Guide to Utilizing HECM for Purchase

Course Description: Educates realtors on a mortgage product designed for seniors, 62 and over, to finance the purchase of a home without the requirement of making a principal and interest payment.

Learning Objectives (See attachment on Bloom's Taxonomy and Learning Levels)

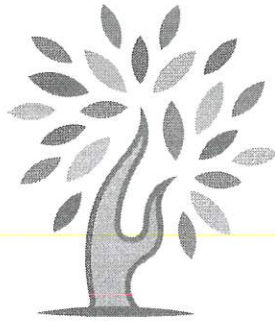
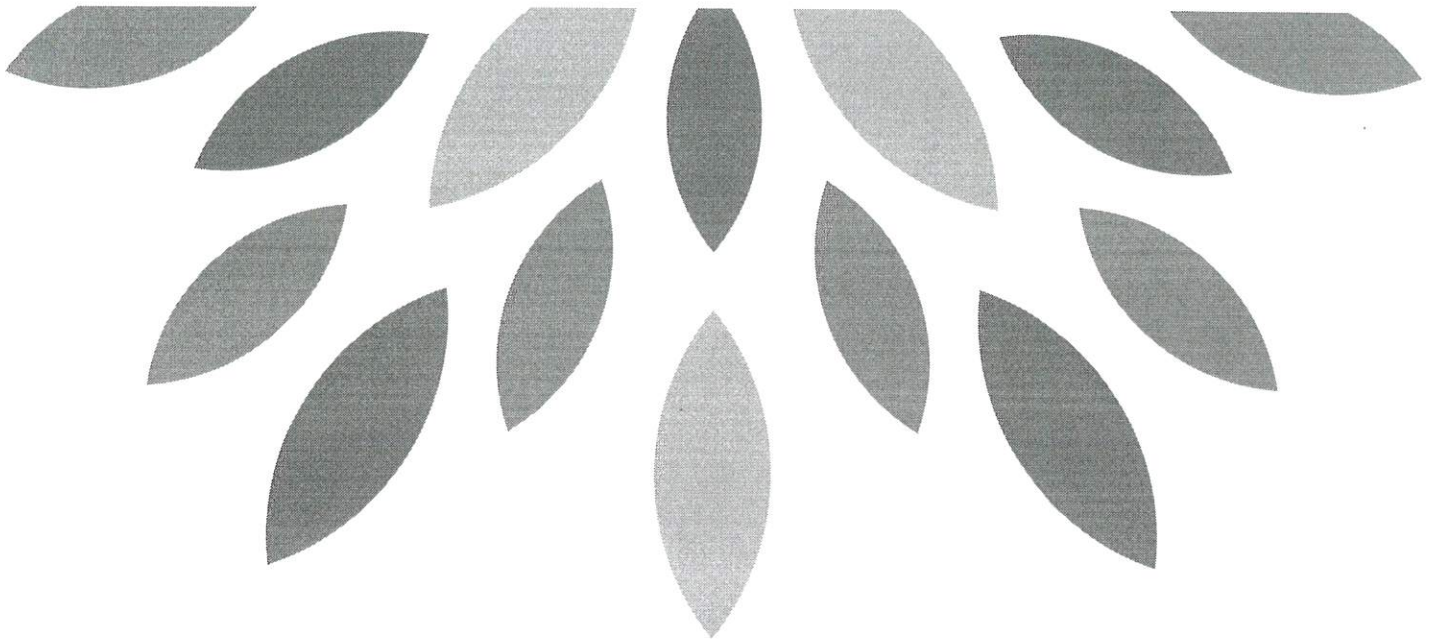
Learning Level	Learning Objective
Creating	Introduction and history of the HECM for purchase
Evaluating	Separating Myths from Reality
Analyzing	Borrower and Property Eligibility
Applying	Understanding the Purchase Transaction
Understanding	Understanding the opportunity
Remembering	Important questions

The following will be the means used in assessing whether the Learning Objectives have been met (Pre and post test, Q&A etc.)

Q & A

Timed Outline: Describe in detail the components of the course by breaking it down into subject matter areas of no greater than 15 minutes. What will be the method of instruction or teaching technique used for each area (lecture, slides, group activities, videotape etc.)

Length in Time (15 min. increments)	Teaching Technique	Subject Matter Segment and Description
15	Lecture/ slides	What is a Reverse Mortgage?
15	Lecture/ slides	History of the Reverse Mortgage for Purchase and recent changes
15	Lecture/ slides	Separating Myths from Reality
15	Lecture/ slides/ Q&A	Separating Myths from Reality - continuing
15	Lecture/ slides	Borrower and Property Eligibility
15	Lecture/ slides	Closing costs and down payment requirements
15	Lecture/ slides	Understanding the Purchase Transaction – General overview



DexterityCE

Presents:

**“H4P - A Realtor’s Guide to Utilizing
the HECM for Purchase”**

HECM For Purchase (H4P)

Course (0000000)
Provider (0000000)

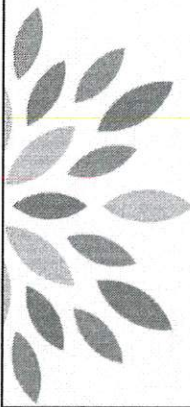
SAMPLE



A 3 Hour Continuing Education Course



H4P - A Realtor's Guide to Utilizing the HECM for Purchase
Home Equity Conversion Mortgage (HECM)
for Purchase (H4P)



Course Overview

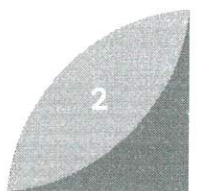
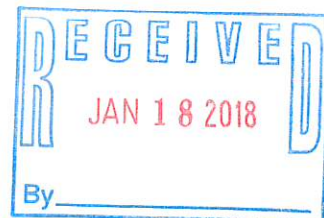
- ❖ History of H4P
- ❖ Separating myth from reality
- ❖ Eligibility
- ❖ Understanding the transaction
- ❖ Marketing to seniors
- ❖ Important questions


What is an H4P?

- ❖ It is a non-recourse loan that enables senior homebuyers, aged 62 and older, to purchase a home and make no monthly mortgage payments for as long as they live in the home*




*Must be able to pay property taxes, homeowner's insurance, and any applicable HOA fees.




 History of H4P

- ❖ Housing Economic Recovery Act of 2008 authorizes FHA to insure HECMs for home purchase
- ❖ October 2008 - HUD issues ML-08-33, implementing the HECM for purchase program
- ❖ ML-09-11 was then issued as a compilation of guidance and superseded ML-08-33


 History of H4P

- ❖ Please refer to your textbook Pages 16-27


 Separating Myth from Reality

- ❖ Borrower retains title
- ❖ Borrower cannot "outlive" the HECM
- ❖ Home goes to estate, or heirs, upon the passing of the last borrower
- ❖ No required P&I payments
- ❖ Interest may be tax-deductible upon loan repayment


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 **HECM Myths**

- ❖ The lender actually owns the home
- ❖ The lender will, ultimately, take the title to the home
- ❖ Borrowers can owe more than the house is worth
- ❖ The costs of the loan are too high
- ❖ Borrowers must own their own home "free and clear" to qualify
- ❖ Children will lose their inheritance

 **Myth 1: The lender actually owns the home**

- ❖ False. A lien is filed as any other mortgage. The borrower still retains full control of the property.

 **Myth 2: The lender will, ultimately, take the title to the home**

- ❖ False. The homeowner will remain on title and maintain all ownership rights and benefits as with any other mortgage.

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Myth 3: Borrowers can owe more than the house is worth

- ❖ It is possible, but it depends on the circumstances. Please note that a HECM is a non-recourse loan, which means that borrowers and/or their heirs are not personally liable for the loan if it exceeds the value of the home.

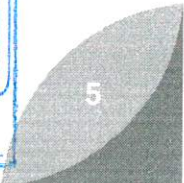
Myth 4: The costs of the loan are too high

- ❖ The HECM is a government insured loan. The costs are similar to any other government endorsed mortgage product (e.g. FHA, VA, and USDA loans).

Myth 5: Borrowers must own their home "free and clear" to qualify

- ❖ False. If a borrower still owes on an existing mortgage, a portion of the HECM will go to paying off existing liens on the current residence.

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Myth 6: Children will lose their inheritance

- ❖ An amortization table is presented to the client at application showing the projected amount of equity in the property each year. All remaining equity in the home after the HECM is satisfied goes to the heirs.

Borrower and Property Eligibility

- ❖ Borrower Eligibility
- ❖ Fixed vs. Adjustable
- ❖ Property Eligibility
- ❖ Down payment Requirements
- ❖ Costs and Fees




Eligibility and Occupancy

- ❖ Borrower(s) must be 62 years old or older*
- ❖ Borrower(s) must occupy the home within 60 days of closing
- ❖ Must meet underwriting guidelines


*Prohibitions for a non-borrowing spouse exist in most states.

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 Eligible Properties

- ❖ Single family homes
- ❖ Duplexes
- ❖ Triplexes
- ❖ 1-4 units
- ❖ Condos*

*Must have PPA condo approval

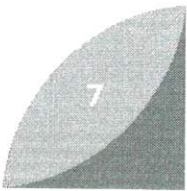
 Down payment : Allowable Sources of Funds

- ❖ Recent or pending home sale
- ❖ Savings/Checking/CDs
- ❖ Gifts
- ❖ Retirement account withdrawals
- ❖ Withdrawals from IRAs and/or 401k

 Down payment : Non-Allowable Sources of Funds

- ❖ Credit cards
- ❖ Bridge loans, subordinate financing, personal loans
- ❖ Loans against 401k accounts
- ❖ Downpayment assistance programs

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Verifying the Down payment : Acceptable Asset Verification

- ❖ VOD with average balance and most recent bank statement
- ❖ 2 months of bank statements (large deposits must be sourced)
- ❖ Cancelled check and sourcing required for earnest money
- ❖ Copy of fully executed HUD-1 and cashier's or certified check for funds coming from sale of previous home

The Contract

- ❖ Amendatory/Escape Clause Certification
- ❖ Contingency for Home Inspection
- ❖ Language that indicates seller is responsible for safety and soundness repairs. Repairs will be completed prior to closing.
- ❖ FHA Real Estate Clause
- ❖ Mortgage Contingency
- ❖ Contingency for sale of existing residence (if applicable)
 - Sale contingency is mandatory for existing residences with FHA financing



Understanding the Purchase

- ❖ Pre-qualification of borrower(s)
- ❖ HECM Counseling
- ❖ HECM loan originator determines required investments and mortgage amount
- ❖ Purchase and sale contract
- ❖ Origination, processing, underwriting, and closing time table

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The Entire Purchase Transaction

1 Your reverse mortgage loan originator determines the required down payment and mortgage amount.



2 Counseling with a third party independent counselor must be scheduled and completed.



3 Purchase & Sales Contract is negotiated and executed.



4 Lender receives Counseling Certificate. No lender can commence processing of a HECM loan until they receive the counseling certificate.



5 After counseling has been completed, your Loan Originator meets with client and originates the loan. Clients sign the application package.



6 Processing Procedure Begins



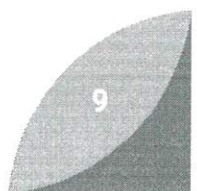
- FHA Case# is ordered & received
- Source of down payment is verified
- Appraisal, title & survey is ordered
- Homeowner's insurance, and flood insurance if applicable, is ordered.
- Limited documentation is collected from borrowers.

7 File is submitted to underwriter

- Underwriting time - 3 to 5 days
- Underwriting conditions met. - 2 days
- File is moved to closing department and scheduled to close. 2 days

Marketing to Seniors





The Numbers

- ❖ Approximately 100,000 baby boomers turn 62 every day
- ❖ The fastest growing age group in the U.S. is 85 and older
- ❖ 77% of the nation's wealth is controlled by seniors
- ❖ 86% of seniors want to age in their own home (AARP)
- ❖ Over 90% satisfaction rate with current HECM borrowers (AARP)
- ❖ 71.5 million senior homeowners estimated by 2030



Marketing to Baby Boomers

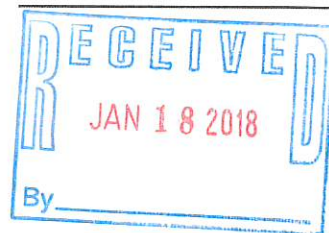
- ❖ H4P will change how baby boomers purchase homes and relocate in retirement
- ❖ H4P makes financing more readily available
- ❖ More available financing means more available listings

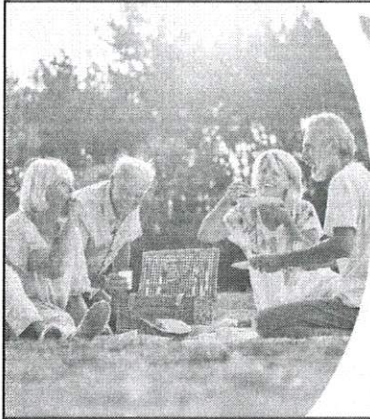


H4P Sets You Apart

- ❖ Increase quality of life for clients
- ❖ Increase your business








Looking to the Future

- ❖ 40% of those surveyed over 60 plan to move at least once during retirement*
- ❖ People are living longer and there is an immediate need for seniors to feel secure in their future

*Taken from a survey by Fidelity Research Institute



John & Mary's Purchase*

- ❖ Both are 65 yrs. old and ready to relocate
- ❖ **The old way**
 - Sell previous home for \$500,000
 - Use proceeds to purchase new home for \$500,000
- ❖ **The new way**
 - Purchaser required funds \$260,500 (including cc estimate)
 - Secure HECM of **\$255,000**
 - **\$239,500** in extra liquidity

*Please refer to your textbook for the details of the following scenarios.




Joe's Right-Sized Home

- ❖ Joe is 70 yrs. Old and wants a home that best suits his needs
- ❖ **Joe sells his home**
 - Sell home for \$700,000 and looks for the right size home
 - Joe wants no monthly mortgage payments*
- ❖ **Joe buys a new home**
 - Purchase price of \$500,000
 - Joe's required funds - \$255,000**
 - HECM of \$261,000
 - **\$445,000** goes to Joe's savings account

*Must keep homeowner's taxes, insurance, and applicable HOA fees. ** Amounts based on assumptions, incl. closing cost est. (6% rate and age and are subject to change without notice. CC may not include all transfer and recording taxes.

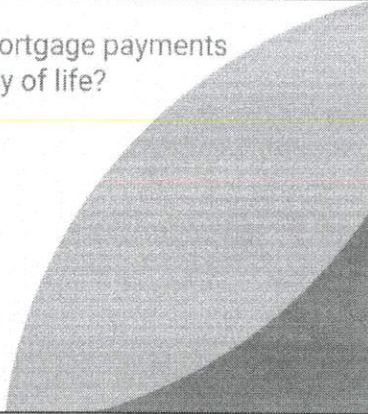
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Important Questions



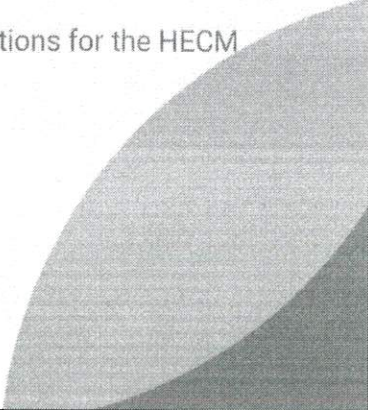
How do no monthly mortgage payments affect a senior's quality of life?

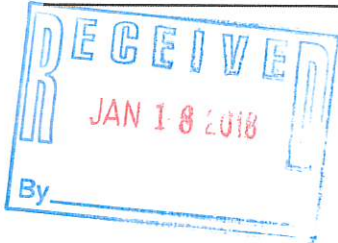
- ❖ Financial freedom
- ❖ Peace of mind



What are a senior's options for the HECM proceeds?

- ❖ Purchase a home
- ❖ Vacations
- ❖ Transportation
- ❖ Healthcare
- ❖ Gifts





Frequently Asked Questions

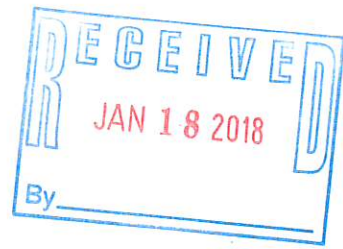
When should seniors consider using an H4P?


- ❖ Downpayment of at least 50% is available
- ❖ Borrower wants optional mortgage payments (Pay when, or as much, as borrower chooses)
- ❖ Senior wishes to retain cash/liquidity to increase quality of life
- ❖ Senior is upsizing, downsizing, or right-sizing
- ❖ Traditional financing has failed

When can MIP be removed?

- ❖ Never. HUD regulations prevent this on all FHA loans.


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 When is the HECM due?

- ❖ Borrower permanently ceases to live in the property
- ❖ Borrower sells property
- ❖ Last remaining borrower passes away*
- ❖ If borrower defaults on contractual agreement**

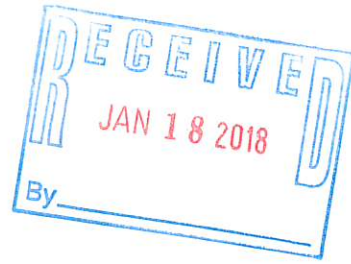
* Amount repaid is principal, accrued interest, and any other applicable costs. Obligation never exceeds value of home for heirs-estate ** Homeowner's insurance, taxes, and any applicable HOA fees must be paid, as well as general maintenance of the home.

 Are HECM proceeds calculated from the sales price, appraised value, lending limit?

- ❖ Proceeds are calculated from the lesser of the sales price, appraised value, or lending limit, and the age of the youngest borrower.

 Can borrowers receive a gift?

- ❖ Yes, gifts are allowed.



Are purchases subject to a recession period?

- ❖ Proceeds being used to complete the purchase of the property are not subject to a recession. Funds left at the table are subject to rescission.

Do both parties have to be 62 years old?

- ❖ No, there are provisions for non-borrowing spouses.

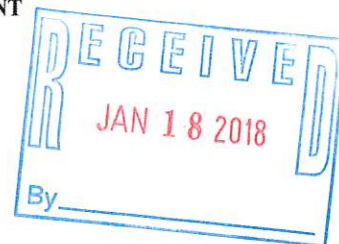
Why should licensed real estate agents care?

- ❖ Better serve the client
- ❖ Open doors to a better quality of life
- ❖ Meet a rising need in the market and society
- ❖ Expand your business clientele



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER



October 20, 2008

MORTGAGEE LETTER 2008-33

**TO: ALL APPROVED MORTGAGEES
ALL HUD-APPROVED HOUSING COUNSELING AGENCIES**

SUBJECT: Home Equity Conversion Mortgage (HECM) for Purchase Program

The Housing and Economic Recovery Act of 2008 (HERA) provides HECM mortgagors with the opportunity to purchase a new principal residence with HECM loan proceeds. Section 2122(a)(9) of HERA amends section 255 of the National Housing Act to authorize the Department of Housing and Urban Development (HUD) to insure HECMs used for the purchase of a 1- to 4-family dwelling unit. Accordingly, eligible mortgagors now have the opportunity to purchase a principal residence with HECM loan proceeds. HECM for purchase transactions, for which the FHA case number is assigned on or after January 1, 2009, must satisfy existing program requirements and the provisions of this Mortgagee Letter.

The Federal Housing Administration (FHA) defines "HECM for Purchase" as a real estate purchase where title to the property is transferred to the HECM mortgagor, which the mortgagor will occupy as a principal residence, and, at the time of closing, the HECM first and second liens will be the only liens against the property. HECM mortgagors must occupy the property within 60 days from the date of closing. Lenders are required to ensure all outstanding or unpaid obligations incurred by the prospective mortgagor, in connection with the HECM transaction, are satisfied at closing.

Eligible Property Types

Only properties where construction is completed, as defined in Mortgagee Letter 2007-06, are eligible for FHA insurance under the HECM for Purchase program. Loan proceeds may be used to satisfy outstanding payment obligations associated with a land contract, contract for deed or other similar purchasing arrangements that will ensure the property, which will be used as collateral for the HECM, meets FHA's title requirements. Those requirements, as provided in section 255(b)(4) of the National Housing Act and implemented in the HECM regulations at 24 CFR 206.45, provide, in part, that the HECM must be on real estate held in fee simple, or on a leasehold under a lease for not less than 99 years which is renewable, or under a lease having a remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor.

Ineligible Property Types

The following property types are ineligible for FHA insurance under the HECM for Purchase program:

- Cooperative units;
- Newly constructed principal residence where a Certificate of Occupancy or its equivalent has not been issued by the appropriate local authority;
- Boarding houses;
- Bed and breakfast establishments;
- Existing manufactured homes built before June 15, 1976; and
- Existing manufactured homes built after June 15, 1976 that fail to conform to the Manufactured Home Construction Safety Standards, as evidenced by affixed certification labels (e.g. data plate and HUD certification label) and/or lack a permanent foundation as required in HUD's Permanent Foundations for Manufactured Housing Guide.

Property Flipping

Prospective mortgagors should be alert to efforts to coerce them into obtaining a reverse mortgage as part of a purchase contractual obligation, or purchasing a distressed home in need of substantial repairs but being sold at or above market rate.

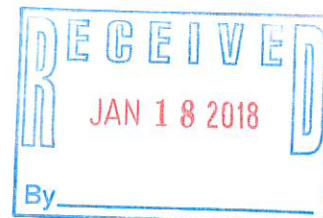
As such, HECM lenders must take steps to ensure that: a) only current owners of record may sell properties that will be financed using FHA-insured mortgages; b) any resale of a property may not occur 90 or fewer days from the last sale to be eligible for FHA financing; and c) for resales that occur between 91 and 180 days where the new sales price exceeds 100% of the previous sales price, FHA will require additional documentation validating the property's value. Lenders providing HECM financing for purchase transactions must comply with guidance provided in Mortgagee Letter 2006-14.

Refinancing and Existing Upfront Mortgage Insurance Premium (MIP)

The HECM refinance authority is only applicable when the property that serves as collateral for FHA-insurance remains the same. Therefore, existing HECM mortgagors who participate in a HECM for Purchase transaction are ineligible for a reduction of the upfront MIP and lenders must enter the transaction into FHA Connection as a new HECM.

Monetary Investment

Consistent with existing policy, the maximum claim amount and principal limit will continue to be calculated in accordance HECM regulations at 24 CFR 206.3, HUD Handbook 4235.1 REV-1, and applicable MLs. At closing, HECM mortgagors must provide a monetary investment which will be applied to satisfy the difference between the HECM principal limit and the sales price for the property, plus any HECM loan related fees that are not financed or offset by other allowable FHA funding sources. HECM mortgagors may choose to provide a larger investment amount in order to retain a portion of the available HECM proceeds for future draws.



Required Investment Examples

Example #1	Example #2	Example #3
Appraised Value/MCA*\$300,000	Appraised Value/MCA*\$300,000	Appraised Value/MCA*\$300,000
Sales price \$300,000	Sales price \$325,000	Sales price \$280,000
Principal Limit** \$199,500	Principal Limit** \$199,500	Principal Limit** \$199,500
Minus Loan Fees \$ 15,500	Minus Loan Fees \$ 15,500	Minus Loan Fees \$ 15,500
Avail. HECM proceeds \$184,000	Avail. HECM proceeds \$184,000	Avail. HECM proceeds \$184,000
Req. Investment \$116,000	Req. Investment \$141,000	Req. Investment \$ 96,000

* Appraised Value/MCA is defined as the maximum claim amount and is used to determine the principal limit which is the lesser of the appraised value or the FHA national mortgage limit. The principal limit is the maximum amount available to the HECM mortgagor.

** Assumes the age of the youngest HECM mortgagor is 67 and a principal limit factor of .665 for a 5% expected average mortgage interest rate.

In each example above, loan fees are deducted from the principal limit of the HECM. However, it is not required that loan fees be deducted from HECM proceeds. The mortgagor may pay loan fees as part of the required monetary investment and use all HECM proceeds toward the purchase transaction.

Funding Sources

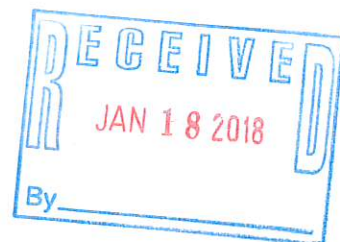
HECM mortgagors must use cash on hand or cash from the sale or liquidation of the mortgagor’s assets for the required monetary investment.

Verification of Funding Sources

Lenders will be required to verify the source of all funds prior to closing. A verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in an account, or the account was opened recently, the lender must obtain a credible explanation of the source of those funds. Such documentation must be provided in the FHA case binder. Failure to provide the necessary documentation may result in a notice of rejection and delay of endorsement.

Gap Financing

Consistent with existing regulatory requirements at 24 CFR 206.32(a), HECM mortgagors may not obtain a bridge loan (also known as “gap financing”) or engage in other interim financing methods to meet the monetary investment requirement or payment of closing costs needed to complete the purchase transaction. This restriction includes subordinate liens, personal loans, cash withdrawals from credit cards, seller financing and any other lending commitment that cannot be satisfied at closing.



Gap Financing Example

A prospective HECM mortgagor completes the required reverse mortgage counseling and receives an estimate stating the required monetary investment could be \$25,000. The prospective HECM mortgagor has \$20,000 in liquid assets but is short the remaining \$5,000. The prospective HECM mortgagor cannot take \$5,000 from a credit card or obtain interim financing in order to deposit the money into their banking account in anticipation of being required to bring this amount to closing. However, the prospective HECM mortgagor may obtain the \$5,000 from an allowable FHA funding source.

Enhanced Counseling

HUD-approved housing counseling agencies that have been approved to provide reverse mortgage counseling, must counsel those who anticipate using the HECM for Purchase option on all topics covered in this Mortgage Letter and other HUD requirements and issuances.

Right of Rescission

The three-day right of rescission period is not applicable to HECM for Purchase transactions. Therefore, all initial advances may be disbursed on the day of closing by the settlement agent. However, FHA encourages lenders to seek their counsel's opinion to assure compliance with Federal or State laws.

Closing Guidance

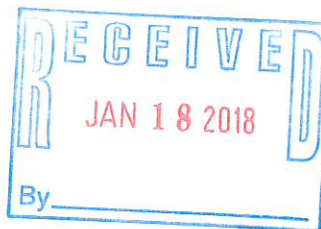
Lenders are required to ensure the property, when used as collateral for the HECM, meets the following property requirements:

- Will serve as the principal residence of the HECM mortgagor.
- Construction is complete and a certificate of occupancy or its equivalent has been issued.
- Any construction loan financing for the property, which will serve as the collateral for the HECM loan, is satisfied and the HECM liens will be in a first and second lien position and, at the time of closing, no other liens against the property exist.

Consistent with existing lending practices, lenders are responsible for determining whether a particular HECM loan is open or closed-end credit. In accordance with 24 CFR 206.43, lenders must comply with the regulatory disclosure requirements.

Data Entry

Instructions on how to enter HECM for Purchase transactions into FHA Connection and Insurance Accounting Collection System will be provided in a separate instruction.



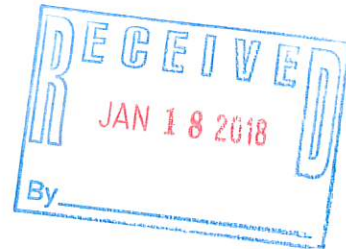
Information Collection Requirements

The information collection requirements contained in this Mortgagee Letter were approved by the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520). Approval of HECM Program is covered by OMB control number 2502-0524, with disclosures requirements being covered by OMB control numbers 2502-0265 and 2502-0059. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a valid control number.

If you have questions regarding this Mortgagee Letter, please call FHA's Resource Center at 1-800-CALL-FHA (1-800-225-5342). Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner

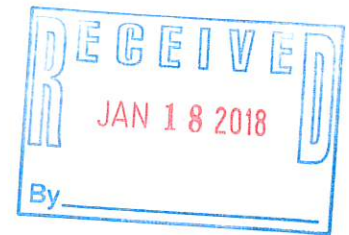


March 27, 2009

MORTGAGEE LETTER 2009-11

**TO: ALL FHA-APPROVED MORTGAGEES
ALL HUD-APPROVED HOUSING COUNSELING AGENCIES**

SUBJECT: HECM for Purchase Program



On October 20, 2008, the Federal Housing Administration (FHA) published Mortgage Letter (ML) 2008-33, announcing the Home Equity Conversion Mortgage (HECM) for Purchase program which allows qualifying seniors to use HECM proceeds for the purchase of a new principal residence. Since its publication, the reverse mortgage industry has sought additional guidance concerning HECM purchase transactions. This ML contains a compilation of guidance issued under ML 2008-33 and new guidance for the HECM for Purchase program and, therefore, supersedes ML 2008-33.

The Housing and Economic Recovery Act of 2008 (HERA) provides HECM mortgagors the opportunity to purchase a new principal residence with HECM loan proceeds. Section 2122(a)(9) of HERA amends section 255 of the National Housing Act to authorize the Department of Housing and Urban Development (HUD) to insure HECMs used for the purchase of a 1 to 4 family dwelling unit. Accordingly, eligible mortgagors now have the opportunity to purchase a principal residence with HECM loan proceeds. HECM for Purchase transactions, for which the FHA case number is assigned on or after the date of this ML, must satisfy existing HECM program requirements and the provisions of this ML.

The Federal Housing Administration (FHA) defines "HECM for Purchase" as a real estate purchase where: title to the property is transferred to the HECM mortgagor; the mortgagor will occupy the property as a principal residence; and, at the time of closing, the HECM first and second liens will be the only liens against the property. HECM mortgagors must occupy the property within 60 days from the date of closing. Lenders are required to ensure all outstanding or unpaid obligations incurred by the prospective mortgagor, in connection with the HECM transaction, are satisfied at closing.

PRINCIPAL RESIDENCE

In accordance with regulatory requirements found at 24 CFR 206.3, HECM mortgagors may have only one principal residence at any one time. Current HECM mortgagors that plan to sell their existing residence and use the HECM for purchase program to obtain a new principal residence must payoff the existing FHA-insured mortgage before the HECM for Purchase mortgage can be insured.

When prospective mortgagors under the HECM for Purchase Program intend to retain their existing home as a rental property, lenders must ensure they have sufficient income to:

1. maintain the costs associated with the new home financed with the HECM for Purchase (ie: taxes, insurance, maintenance);
2. satisfy the monetary investment for the HECM for purchase transaction; *and*

3. continue to make the mortgage payment and tax and insurance payments on the existing mortgage.

The intent of this guidance is to prevent the practice known as “buy and bail” where the homebuyer purchases, for example, a more affordable dwelling with the intention to cease making payments on the previous mortgage.

This guidance applies solely to a principal residence being vacated in favor of another principal residence and is not applicable to existing rental properties found on the tri-merged credit report and confirmed by tax returns (Schedule E of form IRS 1040).

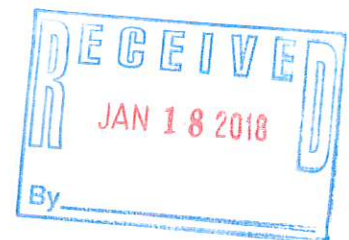
ELIGIBLE PROPERTY TYPES

Only properties where construction is completed, as defined in ML 2007-06, are eligible for FHA insurance under the HECM for Purchase program. Loan proceeds may be used to satisfy outstanding payment obligations associated with a land contract, contract for deed or other similar purchase arrangements that will ensure the property, which will be used as collateral for the HECM, meets FHA’s title requirements. Those requirements, as provided in section 255(b)(4) of the National Housing Act and implemented in the HECM regulations at 24 CFR 206.45, provide, in part, that the HECM must be on real estate held in fee simple, or on a leasehold under a lease for not less than 99 years which is renewable, or under a lease having a remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor.

INELIGIBLE PROPERTY TYPES

The following property types are ineligible for FHA insurance under the HECM for Purchase program:

- Cooperative units;
- Newly constructed principal residences where a Certificate of Occupancy or its equivalent has not been issued by the appropriate local authority;
- Boarding houses;
- Bed and breakfast establishments;
- Existing manufactured homes built before June 15, 1976; and
- Existing manufactured homes built after June 15, 1976 that fail to conform to the Manufactured Home Construction Safety Standards, as evidenced by affixed certification labels (e.g. data plate and HUD certification label) **and/or** lack a permanent foundation as required in HUD’s Permanent Foundations for Manufactured Housing Guide **or** homes that are installed or occupied previously at another site or location.



PROPERTY FLIPPING

Prospective mortgagors should be alert to efforts to coerce them into obtaining a reverse mortgage as part of a purchase contract obligation, or purchasing a distressed home in need of substantial repairs but being sold at or above market rate, or schemes involving temporary rental arrangements.

As such, HECM lenders must take steps to ensure that: a) only current owners of record may sell properties that will be financed using FHA-insured mortgages; b) any resale of a property may not occur 90 or fewer days from the last sale to be eligible for FHA financing; and c) for resales 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's value. Lenders providing HECM financing for purchase transactions must comply with FHA regulations at 24 CFR 203.37a and guidance provided in ML 2006-14.

REPAIR AND PROPERTY SET ASIDES

Properties being purchased using the HECM for Purchase program must meet FHA's minimum property requirements. For purchase transactions where major property deficiencies threaten the health and safety of the homeowner and/or jeopardize the soundness and security of the property, all repairs must be completed by the seller prior to closing. Appraisers must complete the appraisal report as "**Subject To**" the completion of these repairs. Additional appraisal guidance can be found in ML 2005-48 and Revised Appendix D of Handbook 4150.2 CHG-1.

Major Property Deficiency Examples:

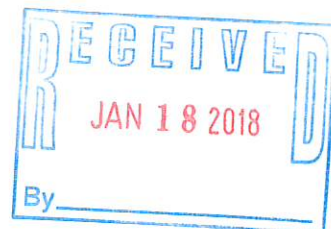
- No running water
- Leaking roof
- No primary heating source
- Inadequate electrical systems (including lighting)
- Inoperable doors and windows (inhibited ingress and egress)
- State or local code violations

HECM mortgagors will continue to have the option of electing to have the lender set aside funds from their monthly payments or by charging such funds to the line of credit for payment of property charges such as ground rent, homeowner association fees, taxes, hazard insurance, etc.

MAXIMUM CLAIM AMOUNT CALCULATION

The maximum claim amount is used to determine the principal limit and mortgage insurance premium for FHA-insured mortgage transactions. For purchase mortgages only, the maximum claim amount will be the least of: 1) the appraised value; 2) sale price; or 3) FHA mortgage limit for a one family residence. This applies to all one-to-four unit properties. Neither the estimate of closing costs nor the initial mortgage insurance premium is used in the calculation of the maximum claim amount.

MONETARY INVESTMENT



The principal limit will be calculated in accordance with HECM regulations at 24 CFR 206.3, HUD Handbook 4235.1 REV-1, and applicable MLs. At closing, HECM mortgagors must provide a monetary investment which will be applied to satisfy the difference between the HECM principal limit and the sale price for the property, plus any HECM loan related fees that are not financed into the loan, minus the amount of the earnest deposit. HECM mortgagors may choose to provide a larger investment amount in order to retain a portion of the available HECM proceeds for future draws. A set of Required Investment Examples is contained in the attachment to this ML to assist lenders with the calculation.

FUNDING SOURCES

HECM mortgagors must use cash on hand or cash from the sale or liquidation of the mortgagor's assets for the required monetary investment. The monetary investment requirement can also be met by the use of approved funding sources as defined in HUD Handbook 4155.1

REV-5, section 2-10, with the exception of the following funding sources which may not be used:

- Sweat Equity
- Trade Equity
- Rent Credit
- Cash or its equivalent, in whole or in part, from the following parties, before, during or after loan closing:
 - The seller or any other person or entity that financially benefits from the transactions, or
 - Any third party or entity that is reimbursed, directly or indirectly, by any of the parties described in the previous bullet.

FHA prohibits seller contributions (also known as “seller concessions”), the use of loan discount points, interest rate buy downs, closing cost down payment assistance, builder incentives, gifts or personal property given by the seller or any other party involved in the transaction. This includes customary charges that are normally paid on behalf of the borrower by the seller.

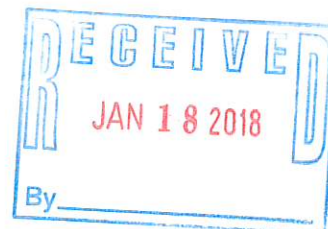
VERIFICATION OF FUNDING SOURCES

Lenders will be required to verify the source of all funds prior to closing. Supporting documentation, as specified in section 2-10 of HUD Handbook 4155, REV-5, must be provided in the FHA case binder. Failure to provide the necessary documentation may result in a notice of rejection, delay of endorsement and administrative action.

GAP FINANCING

Consistent with existing regulatory requirements at 24 CFR 206.32(a), HECM mortgagors may not obtain a bridge loan (also known as “gap financing”) or engage in other interim financing methods to meet the monetary investment requirement or payment of closing costs needed to complete the purchase transaction. This restriction includes subordinate liens, personal loans, cash withdrawals from credit cards, seller financing and any other lending commitment that cannot be satisfied at closing.

Gap Financing Example



A prospective HECM mortgagor completes the required reverse mortgage counseling and receives an estimate stating the required monetary investment could be \$25,000. The prospective HECM mortgagor has \$20,000 in liquid assets but is short the remaining \$5,000. The prospective HECM mortgagor cannot take \$5,000 from a credit card or obtain interim financing in order to deposit the money into his/her banking account in anticipation of being required to bring this amount to closing. However, the prospective HECM mortgagor may withdraw the \$5,000 from an insurance policy or retirement plan.

MORTGAGE INSURANCE PREMIUMS

In accordance with regulatory requirements at 24 CFR 206.105 and 206.111, lenders are required to remit an initial mortgage insurance premium of 2 % of the maximum claim amount within 15 days of closing.

REFINANCING AND EXISTING UPFRONT MORTGAGE INSURANCE PREMIUM (MIP)

The HECM refinance authority is only applicable when the property that serves as collateral for FHA-insurance remains the same. Therefore, existing HECM mortgagors who participate in a HECM for Purchase transaction are ineligible for a reduction of the upfront MIP and lenders must enter the transaction into FHA Connection as a new HECM.

SUSPENSIONS AND DEBARMENTS

Lenders must examine HUD's Limited Denial of Participation List (LDP) and the General Services Administration's (GSA) Excluded Parties List System to determine if the name of any party to the transaction including, but not limited to, the seller, real estate agent, or builder, appears on either list. The reverse mortgage will not be eligible for mortgage insurance if the name of any party to the transaction appears on either list.

ENHANCED COUNSELING

HUD-approved housing counseling agencies that have been approved to provide reverse mortgage counseling must counsel those who anticipate using the HECM for Purchase option on all topics covered in this mortgagee letter and other HUD requirements and issuances.

RIGHT OF RESCISSION

In most cases the right of rescission will not be applicable to HECM for purchase transactions. However, there may be instances when the loan would be rescindable. For example, if the mortgagor intends to finance a balloon payment due under a land sale contract, the three day right of rescission would be applicable. FHA does not have purview over right of rescission requirements found in Regulation Z, 12 CFR Part 226. FHA strongly encourages lenders to seek an outside counsel's opinion to assure compliance with all applicable Federal or State laws.

CLOSING GUIDANCE



Lenders are required to ensure the property, when used as collateral for the HECM, meets the following property requirements:

- Will serve as the principal residence of the HECM mortgagor.
- In the case of newly built home, construction is complete and a certificate of occupancy or its equivalent has been issued.
- Any construction loan financing for the property, which will serve as the collateral for the HECM loan, is satisfied and the HECM liens will be in first and second lien positions and, at the time of closing, no other liens against the property exist.

Lenders originating HECM for purchase transactions are responsible for determining whether a particular HECM loan is open or closed-end credit. In accordance with 24 CFR 206.43, lenders must comply with the regulatory disclosure requirements.

DATA ENTRY REQUIREMENTS

Several changes have been made to FHA Connection to accommodate HECM for Purchase mortgages. To ensure a HECM purchase transaction is successfully entered into FHA Connection, lenders must follow the instructions below.

Case Number Assignment Screen

System Field

- Type of Case

Lender Entry

Select "HECM Purchase" from the drop-down list

Appraisal Logging Screen

System Field

- Contract Price
- Date of Contract
- Was prior sale/transfer of this property within the past 3 years?
- Date of Prior Sale/Transfer
- Price of Prior Sale/Transfer

Lender Entry

Enter numeric value from sales contract

Enter date of sale from sales contract

Select correct choice from drop-down list

If within 3 years, enter date of prior sale

If within 3 years, enter price of prior sale

HECM Insurance Application Screen

System Field

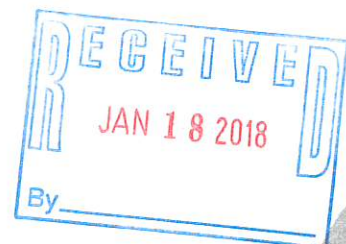
- Borrower Investment

Lender Entry

Enter numeric value

The completion of these data fields, in addition to the normal entries, is required for endorsement of the mortgage.

REQUIRED DOCUMENTS FOR ENDORSEMENT



A new HECM pre-endorsement listing of required documents will be provided in a separate instruction.

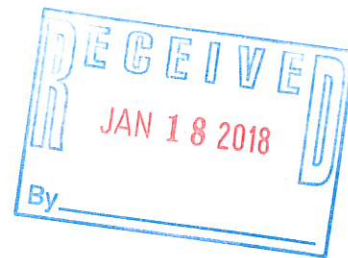
INFORMATION COLLECTION REQUIREMENTS

The information collection requirements contained in this mortgagee letter were approved by the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520). Approval of the HECM Program is covered by OMB control number 2502-0524. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a valid control number.

If you have any questions regarding this mortgagee letter, please call 1-800-CALL-FHA. Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

Brian D. Montgomery
Assistant Secretary for Housing-
Deputy Federal Housing Commissioner



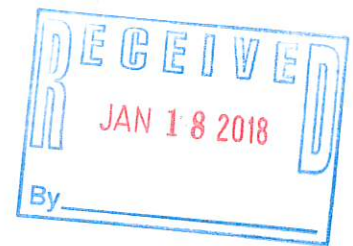
Understanding the Purchase Transaction

As we have already learned the amount available to a perspective senior borrower depends on the borrower's age, (the youngest borrower in the case of a couple), value of the subject property, FHA loan limit (Maximum \$636,150) and the current interest rate.

The process is so drastically different from a forward mortgage. There are no income or debt ratios. There is not a generic software program in which to enter "basic financial" information regarding your client and instantly learn what he or she will qualify for from various lenders. In fact, each national reverse mortgage wholesaler has created their own proprietary reverse mortgage software to qualify perspective clients.

Closing costs are controlled, or limited, by HUD but it's important to choose a respected originator that specializes in the HECM product. This is particularly true in the case of the HECM for purchase. Choosing the right reverse originator can be the difference between stumbling through this procedure or having it be a very pleasant experience for both the client and the licensed real estate agent.

It is imperative that your perspective borrower be pre-qualified by a reverse mortgage specialist. A reverse mortgage is an FHA loan but not all FHA approved mortgage originators have been specifically trained in reverse mortgages.



Here are the steps and time table you should be prepared for if you chooses to offer this product to your prospective buyers;

1

Your reverse mortgage loan originator determines the required down payment and mortgage amount.



2

Counseling with a third party independent counselor must be scheduled and completed.



3

Purchase & Sales Contract is negotiated and executed.



4

Lender receives Counseling Certificate. No lender can commence processing of a HECM loan until they receive the counseling certificate.



5

After counseling has been completed, your Loan Originator meets with client and originates the loan. Clients sign the application package.



6

Processing Procedure Begins

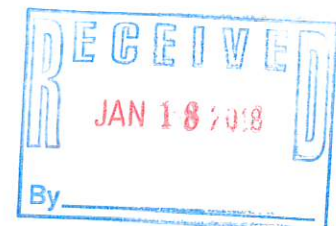
- FHA Case# is ordered & received
- Source of down payment is verified
- Appraisal, title & survey is ordered
- Homeowner's insurance, and flood insurance if applicable, is ordered.
- Limited documentation is collected from borrowers.



7

File is submitted to underwriter

- Underwriting time – 3 to 5 days ■■■■■■
- Underwriting conditions met. – 2 days ■■
- File is moved to closing department and scheduled to close. 2 days ■■



Total time estimated for entire process – 30 to 45 days.

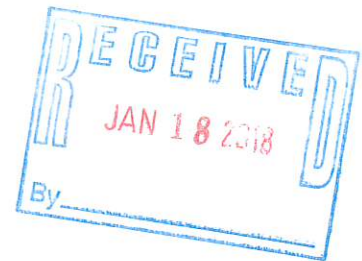
Scenarios

John & Mary

Closing cost estimate is \$16,000 and includes \$10,000 upfront MIP. Expected rate used was 4.00 (If current expected rates are lower, this borrower would get slightly more, if expected rates are higher, this borrower would get slightly less. The Expected rate and amount of the loan is locked in at application on an ARM. Fixed Rate loan amounts and interest rates are not locked until closing)

Joe's Right-Sized Home

Closing cost estimate is \$16,000 and includes \$10,000 upfront MIP. Expected rate used was 4.00 (If current expected rates are lower, this borrower would get slightly more, if expected rates are higher, this borrower would get slightly less. The Expected rate and amount of the loan is locked in at application on an ARM. Fixed Rate loan amounts and interest rates are not locked until closing)





DexterityCE

Presenter Name

Presenter Title

000.000.0000 or 000.000.0000

0000 Street Address City, State 00000

Email

Website

