Underwriting Reverse Mortgages

New Home Equity Conversion Mortgage regulations require extra documentation

By Yanni Raz

Reverse mortgages, or Home Equity Conversion Mortgages (HECMs), were often seen as loans of last resort in the past. Recent developments in HECMS, however, have helped transform them into a helpful and smart retirement tool for homeowners over 62.

Retirees who can meet the underwriting guidelines of reverse mortgages can convert part of the equity in their homes into cash. The money they have paid into their mortgages over the years is a great source of wealth that they have every right to use, but the benefits of a reverse mortgage can only be enjoyed if the homeowner complies with all of the terms.

The industry is still attempting to determine exactly what documentation should be required during the process of underwriting a reverse mortgage, so the job of a HECM underwriter has become more complicated. This process is not entirely impossible to navigate however, and, luckily for originators, there are many savvy underwriters who can help make sense of the process for them and their clients.

HECM guidelines

Homeowners must meet the following guidelines to obtain a reverse mortgage. First, borrowers must be at least 62 years old and must occupy the home as their principal residence. They also must own their home outright or have a mortgage balance that can be paid off with the proceeds from the loan at the time of closing.

If the borrowers meet the requirements, the application process can begin; however, the federal government also requires homeowners to go through mortgage counseling before getting a HECM reverse mortgage. Borrowers can find a counselor through the U.S. Department of Housing and Urban Development (HUD) website, and will obtain a signed HECM counseling certificate once the course is completed. An originator cannot incur any costs on behalf of the homeowner until the counseling is completed. The application can be canceled at any time during the process.

Reverse-mortgage housing counselors will explain the details of a HECM to the borrowers to ensure they understand what they are getting themselves into. The counseling was designed to protect homeowners who may not be knowledgeable when it comes to finances and mortgages. For those borrowers who are confident in their financial knowledge, phone consultations are available in most states.

As with a forward mortgage, the borrower's home is used as collateral in reverse mortgages, so the home must meet HUD standards. During underwriting, an inspector will be sent to the home to determine if there are any repairs that are needed. If repairs or maintenance are needed, a portion of the HECM loan will be used to pay for them. Once the repairs are completed, they will be inspected.

Financial assessment

Recent changes to HECM regulations now require an assessment of the homeowner's finances as well. Reverse-mortgage borrowers must be able to pay property taxes, origination fees, insurance, service fees, home maintenance and closing costs, so they must provide verification that they can pay these costs. Homeowners seeking a HECM also must not be delinquent on any federal debt.

In addition, the home must be maintained and the homeowner remains responsible for paying homeowner insurance and property taxes for the life of the loan. Most borrowers can choose to roll these costs into the loan or pay them out-of-pocket. If the results of the financial assessment indicate that the borrower may have trouble meeting these obligations, that homeowner may be required to set aside part of the proceeds of the loan to cover the estimated tax and insurance payments over the expected life of the youngest borrower.

These required assessments help minimize the risk to both borrowers and lenders. They are designed to deny reverse mortgages to homeowners who are unable to continue to pay insurance, property taxes, and home-maintenance fees. Homeowners with reliable income need not worry, however. As long as

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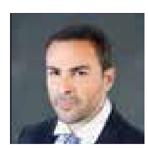

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they can prove that they can cover their financial obligations, the financial assessment is nothing to be afraid of.

Essentially, what the lenders are looking for are homeowners who have the ability to keep up with their various financial obligations, are willing to comply with the reverse-mortgage requirements and have no high outstanding debt or late payments on credit cards. These new HECM requirements are meant to protect homeowners from default and foreclosure.

Required documentation

As reverse-mortgage requirements change and evolve, underwriters are often required to think outside the box. With so many different kinds of borrowers interested in reverse mortgages, it can be difficult to wade through all of the financial documentation to find what is necessary and what is not to complete the process. For now, loan originators should obtain these four basic documents from their clients to make sure their HECM applications pass through underwriting:

■ **Valid identification.** All co-signed borrowers must provide proof they are 62 or older.

■ **Verification of principal address.** HUD defines the homeowner's principal residence as "a property that will be occupied by the borrower for the majority of the calendar year."

■ **Verification of income.** HECM borrowers must prove they can pay for any costs or fees associated with the loan. Although the underwriting guidelines currently are not strict when it comes to credit history, there will be a credit check. The homeowner also must provide verification of insurance along with a copy of the property tax bill.

■ **Counseling certificate.** The homeowner must provide the originator with a copy of certificate they received after completing the required reverse-mortgage counseling.

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The reverse-mortgage process may seem like a difficult one to navigate, but it is not impossible. Although the new process and financial assessment may have made the process more challenging for originators, underwriters and borrowers than it was in the past, it is still typically easier to qualify for a reverse mortgage than to qualify for a regular, or forward, mortgage. The reverse-mortgage requirements are simply meant to screen homeowners more efficiently to protect them from defaulting. ■