Reverse Mortgage
Risk Management Priorities

- MBA Conference
- New York, NY
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PRIORITY #1

2010 GFE/RESPA RULES

Red Flags

- Valid changed circumstance
- Redisclosure at float to lock.
- Increase in “Our Origination Charge”

Example Disclosure:

Your Adjusted Origination Charges	
1. **Our origination charge** This charge is for getting this loan for you.	$4,000
2. **Your credit or charge (points) for the specific interest rate chosen** ☐ The credit or charge for the interest rate of [ ] % is included in “Our origination charge.” (See item 1 above.) ☐ You receive a credit of $ [$1,000] for this interest rate of [5.0] %. This credit **reduces** your settlement charges. ☐ You pay a charge of $ [ ] for this interest rate of [ ] %. This charge (points) **increases** your total settlement charges. The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.	- $1,000
A Your Adjusted Origination Charges	$ $3,000

PRIORITY #1

2010 GFE/RESPA RULES

Market Place : Back end premiums (YSP) have been steadily increasing since January 1.

Can the originating broker capture the benefit of an increased premium after the initial disclosures are released with a lower YSP?

Prudent Policy: Block 1 (“Our Origination Charge”) of the GFE should change only in proportion to the change in loan amount (i.e. max claim amount / initial draw amount) under a “Valid Change Circumstance”.

PRIORITY #1

2010 GFE/RESPA RULES

HUD RESPA FAQ #3, page 22 (April 2, 2010). HUD has been clear in its informal guidance that "if pricing has changed due to going from a float to a lock, only the interest rate dependent charges and terms may change (block 2 and the impacted "Adjusted Origination Charges")."

HUD RESPA FAQ #19, page 8 (April 2, 2010).
*Q**:** If a GFE has been provided and the interest rate has not been locked, can the loan originator provide a revised GFE when the borrower later locks the interest rate?*
*A**:** Yes, if a borrower locks the interest rate after the GFE has been issued, a revised GFE must be issued within 3 days of the interest rate lock reflecting the date that the interest rate lock is good through in Line 1 and —N/A in Line 4 of the —Important dates section of the GFE. Any interest rate-dependent charges (Block 2, Line A and Block 10 on the GFE) and terms that changed must also be updated on the revised GFE*

Q: If all or a portion of the charge in Block 1 is calculated as a percentage of the loan amount, and the loan amount changes, can the loan originator issue a revised GFE with an updated charge in Block 1?
A: Yes, but only if issuance of a revised GFE is permissible under 24 CFR 3500.7(f). In particular, if the loan amount changes and all or a portion of Block 1 is calculated as a percentage of the loan amount, then that portion in Block 1 may be recalculated. Block 1 can increase due to a changed circumstance if the change affects the loan amount and all or a portion of the Origination Charges were calculated as a percentage of the loan amount. Block 1 may also increase if the borrower either requests a different loan product or the borrower is no longer eligible for the loan product contained in the initial GFE, but is eligible for a different loan product. See HUD's RESPA Plain English Power Point presentation, slide 13 (December 3, 2009).

PRIORITY # 2

INVESTMENT PROPERTY BAILOUT

The dangerous combination of a HECM and a misinformed senior: A property investor can effectively off lay a bad investment to HUD.

Red Flags

- Recent Change of Title
- Payoff of private party loans
- Increase in sales price: Review prior transfer history
- Little or no cash investment from borrower

Risks

- Insurability
- Borrower lacks commitment to the property
- Early Tax & Insurance default
- Occupancy

PRIORITY # 3

Loans with Power of Attorney (POA)

Reverse mortgages originated under a POA have a potential risk of fraud / senior abuse.

Red Flags

- Recently executed POA
- Documentation indicating borrower maybe incompetent or have dementia
- The POA is NOT the competent spouse

Risks

- Possible misappropriation of funds by the POA
- Civil liability for the lender
- Loss of Lien

PRIORITY # 4

Unnecessary HECM to HECM Refinance

HUD has issued guidance that above 5x benefit factor counseling is not necessary.

When in doubt, ask yourself “Is this a loan I would do for my mother?”

Example:

Increase in Principal Limit	:	$21,000
Closing Costs + Set Asides	:	$ 7,000
Net to cash out to borrower	:	$14,000

Would you spend $7,000 of your mom’s equity for her to receive an additional $14,000?

Email info@swmc.com to request a copy of this presentation.

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