

# 4235.1 Home Equity Conversion Mortgages

Directive Number: 4235.1

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Special Attention of:

Transmittal Handbook No.:

Directors of Housing  
Directors, Single Family Divisions  
Directors, Single Family Development Processing Centers  
Field Office Chiefs  
Participating Mortgagees and Counseling Agencies

4235.1 REV-1

Issued: November 18, 1994

1. THIS TRANSMITS HANDBOOK 4235.1 REV-1, Home Equity Conversion Mortgages.
2. Explanation of Material Transmitted:

This handbook provides updated instructions to approved mortgagees and to HUD Field Office personnel regarding the processing and servicing of a Home Equity Conversion Mortgage (HECM). This handbook replaces 4235.1, dated August 1989, and incorporates Mortgagee Letters 90-17, 91-1 (references on pages 5 and 6 to HECMs), and 93-22. See Foreword for highlights and major changes.

3. Filing Instructions:

Remove:

Insert:

Handbook 4235.1  
dated August 1989

Handbook 4235.1 REV-1  
dated September 1994

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Assistant Secretary for Housing-  
Federal Housing Commissioner

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HUD-23 (9-81)

## FOREWORD

This handbook describes the Department's Home Equity Conversion Mortgage (HECM) program and provides instructions for HUD staff, participating lenders, and HUD-approved counseling agencies. It combines and updates the provisions of Handbook 4235.1 (issued 8/24/89), and Mortgagee letters 90-17, 91-1 (pages 5 and 6), and 93-22. Where it is applicable, this handbook refers to other HUD handbooks for detailed procedural and policy information.

Questions not addressed in the text, or in the referenced material, should be directed to the local HUD Office, or to the Director, Single Family Development Division, Office of Insured Single Family Housing, HUD Headquarters, 451 Seventh Street, S.W., Washington, D.C. 20410-8000.

The following are highlights and changes to the handbook: (Note that in the case of handbook provision being modified or clarified, the

following Paragraph references will not correlate to paragraphs in the first version of the HECM handbook. This is because Paragraphs 2, 8 and 10 were deleted; consequently, the remaining paragraph numbers have been substantially modified.)

Chapter 1: Paragraph 1-8 expanded to describe the reservation system which was rendered obsolete by the Cranston-Gonzalez National Affordable Housing Act (NAHA) in 1990. The reservation system was previously outlined in Chapter 2. Paragraph 1-3 has been revised to reflect that a HECM is a non-recourse loan. Paragraph 1-15 has been included to outline the manner in which lenders may utilize the CHUMS Lender Access System (CLAS).

Chapter 2: Paragraph 24 has been included to allow a counseling session to be held with a person holding a power of attorney, or with a court-appointed conservator, on behalf of a borrower lacking legal competency.

Chapter 3: Paragraph 34A. has been expanded to clarify the means by which a property is classified as a one-, two-, three-, or four-unit property. Paragraph 3-4B. has been expanded to describe the guidelines for manufactured home eligibility. Paragraph 3-4H. has been revised to clarify flood insurance requirements. Paragraph 3-6 has been included to describe the acceptability under fair housing laws of protective covenants in retirement communities. Various paragraphs have been

revised to reflect that HUD no longer provides an estimate of closing costs.

Chapter 4: Paragraph 4-2B. has been revised to reflect the policy which was adopted in 1993 regarding the amount of loan origination fee which may be financed. Paragraph 4-2E. has been modified to clarify that existing liens may be subordinated rather than paid off. Paragraph 4-3 has been modified to reflect the requirement that lenders must identify potential borrowers who have been suspended, debarred, or otherwise excluded from participation in the Department's programs. Paragraph 4-4C. has been revised to reflect the existing policy that at least one borrower must be living in the home in order for the HECM to close. Paragraph 4-5 has been added to reflect the instructions that were adopted in 1993 concerning HECMs on property held in trust. Paragraph 4-6 has been added to reflect power of attorney and conservatorship guidelines. Paragraphs 4-7 and 4-8 have been revised to reflect that the Disclosure Statement for Reverse Mortgages (formerly Appendix 15) is no longer required. Paragraph 4-7B. has been modified to reflect the acceptability of a merged in-file credit report. Paragraph 4-7F. has been expanded to incorporate existing requirements regarding identification of the borrower. Various paragraphs have been revised to reflect that HUD no longer provides an estimate of closing costs.

Chapter 5: Paragraph 5-2 has been revised to indicate that the HECM spreadsheet software may no longer be downloaded from a HUD computer

bulletin board. Paragraph 5-9E. has been modified to reflect that a minimum balance of \$50.00 must remain in the line of credit after a withdrawal.

Chapter 6: Various paragraphs have been modified to reflect the use of the adjustable rate notes which were introduced in 1993. Paragraph 6-6B. has been revised to clarify the circumstances under which a figure representing 150% of the maximum claim amount is used in the mortgage. Paragraph 6-8 has been modified to reflect the policy with respect to the loan closing date that was adopted in 1993. Paragraph 6-10 has been revised to emphasize that the second mortgage is not subject to any State or local recording taxes. Paragraph 6-17B. has been added to provide instructions for maintenance of the case binder following the insurance demonstration.

Chapter 7: Paragraph 7-13 was modified to clarify the circumstances which require a MIP refund.

Chapter 8: No significant change.

Chapter 9: No significant change.

General Handbook Changes: Three chapters have been removed. Allocation of Reservations (formerly Chapter 2) was rendered obsolete by the Cranston-Gonzalez National Affordable Housing Act (P.L. 101-625, 11/28/90). That legislation increased HECM insurance authority so that reservations were no longer necessary. Lender Servicing (formerly Chapter 8) and Payoffs and Due and Payable Mortgages (formerly Chapter 10) have been incorporated into HUD Handbook 4330.1, Administration of Insured Home Mortgages. Several appendices have been renumbered. The ARM Rider and Note Allonge (formerly Appendices 5 and 6) have been discontinued. In their place, lenders must use the HECM Adjustable Rate Note and Adjustable Rate Second Note, identified as Appendices 3 and 6 in this Revision. Instructions for completing the borrower's application (formerly Appendix 13) has been substantially revised to reflect the use of the Uniform Residential Loan Application (URLA) and the 92900-A (Addendum), and may now be found at Appendix 15. The Disclosure Statement for Reverse Mortgages (formerly Appendix 15) has been discontinued, its use is not mandated. Adjustable Rate Disclosure Statement for a Reverse Mortgage (formerly Appendix 16) was discontinued in 1990 and continues to be obsolete. Lenders should rely on The Federal Reserve Board's Regulation Z for appropriate HECM disclosures. The Suggested Form of Periodic Disclosure ARM Notice for a Reverse Mortgage (formerly Appendix 17), was discontinued in 1990. This form is reinstated in this Revision; it is identified as "Periodic Disclosure (Suggested Form) Notice of Change in Interest Rate on Adjustable Rate HECM," and appears at Appendix 17. The CHUMS Input Worksheet (Appendix 18 in former handbook and Revision) has been revised to reflect the use of the URLA.

#### References:

- (1) 2226.1 Single Family Mortgage Insurance Case Binder -  
Transfer and Retrieval

- (2) 4145.1 Architectural Processing and Inspections for Home Mortgage Insurance
- (3) 4150.1 Valuation Analysis for Home Mortgage Insurance
- (4) 4165.1 Endorsement for Insurance for Home Mortgage Programs
- (5) 4265.1 Home Mortgage Insurance - Condominium Units, Section 234(c)
- (6) 4330.1 Administration of Insured Home Mortgages
- (7) 4330.4 FHA Single Family Insurance Claims
- (8) 4335.2 Mortgage Servicing Handbook - Secretary Held Home Mortgages
- (9) 4905.1 Requirements for Existing Housing - One to Four Family Living Units
- (10) 7610.1 Housing Counseling
- (11) 12 CFR 226 Regulation Z
- (12) 24 CFR Parts 100, 103, 104 Discriminatory Conduct Under the Fair Housing Act; Complaint Processing; Administrative Proceedings
- (13) 24 CFR 203.387, 203.389, 234.285 Title Evidence for FHA-Insured Mortgages
- (14) 24 CFR 206.45(a) Properties Eligible for HECM (Title)
- (15) 24 CFR 3280.8 Manufactured Home Construction and Safety Standards

FORMS REFERENCED IN THIS HANDBOOK:

Current edition date is noted in parentheses following form number. Forms are listed in order of appearance in Handbook.

|  |   | OMB Approval No. |
|--|---|------------------|
| HUD 92800 (3/6/87)   | Application for Property Appraisal and Commitment | 2502-0111        |
| Freddie Mac Form 70/<br><a href="#">Fannie Mae Form 1004</a><br>(6/92) | Uniform Residential Appraisal Report (URAR)       | n/a              |
| HUD 92051 (7/1/87)   | Compliance Inspection Report                      | 2502-0189        |

|   |  |           |
|---|--|-----------|
| HUD 92800.5B (2/1/91)                                   | Condition Commitment<br>Direct Endorsement<br>Statement of Appraised Value | 2502-0494 |
| HUD 92300 (2/5/91)                                      | Mortgagee's Assurance of Completion  | 2502-0189 |
| Freddie Mac Form 65/<br>Fannie Mae Form 1003<br>(10/92) | Uniform Residential Loan Application<br>(URLA)                             | n/a       |
| HUD 92900-A (12/1/91)                                   | Addendum to the Uniform Residential<br>Loan Application (URLA)             | 2502-0059 |
| HUD 92900.4 (8/24/92)                                   | Firm Commitment  | n/a       |
| HUD-1 (3/1/86)  | Settlement Statement   | 2502-0265 |
| HUD 59100 (4/10/90)                                     | Mortgage Insurance Certificate   | n/a       |
| HUD 92080 (6/19/91)                                     | Mortgage Record Change   | 2502-0422 |
| HUD 27050-A (12/1/90)                                   | Mortgage Insurance Termination   | 2502-0414 |
| HUD 27011 (5/5/93)                                      | Single Family Application for<br>Insurance Benefits                        | 2502-0429 |

## **CHAPTER 1. GENERAL INFORMATION**

**1-1 LEGISLATIVE HISTORY.** [<TOP>](#) The Housing and Community Development Act of 1987 (P.L. 100-242, 2/5/88) established a Federal mortgage insurance program, Section 255 of the National Housing Act, to insure home equity conversion mortgages. The program is administered by the Department of Housing and Urban Development (HUD). Pursuant to the 1987 Act, the Department was authorized to insure 2,500 HECMs. These 2,500 reservations of insurance authority were allocated among the 10 HUD Regions in proportion to each Region's share of the nation's elderly homeowners. The Regional Offices of Housing then distributed the reservations among lender applicants using a random drawing method. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508, 11/5/90) increased the Department's insurance authority to 25,000 mortgages; accordingly, the reservation system was terminated, and all Federal Housing Administration (FHA) approved lenders are now eligible to participate in the HECM program.

**1-2 PURPOSE OF THE PROGRAM.** [<TOP>](#) The program insures what are commonly referred to as reverse mortgages, and is designed to enable elderly homeowners to convert the equity in their homes to monthly streams of income and/or lines of credit.

**1-3 CHARACTERISTICS OF THE MORTGAGE.** [<TOP>](#)



A. Loan proceeds in a home equity conversion mortgage (HECM) or "reverse mortgage" are paid out according to a payment plan selected by the borrower.

B. Unlike a traditional "forward" residential mortgage, which is repaid in periodic payments, a reverse mortgage is repaid in one payment, after the death of the borrower, or when the borrower no longer occupies the property as a principal residence.

C. The HECM is a "non-recourse" loan. This means that the HECM borrower (or his or her estate) will never owe more than the loan balance or the value of the property, whichever is less; and no assets other than the home must be used to repay the debt.

D. The HECM has neither a fixed maturity date nor a fixed mortgage amount.

E. If the lender is unable to make payments to the borrower, HUD will assume responsibility for making payments until the lender is able to resume. If the lender will not be able to make any future payments, HUD will make payments for the remainder of the mortgage.

F. The mortgage proceeds paid by the lender and/or HUD will be secured by first and second mortgages on the property. These liens will allow the lender and HUD to recover any losses up to the value of the property when the borrower dies, or no longer maintains the property as a principal residence.

G. Eligibility Requirements (See Chapters 3 and 4).

1) Eligible borrowers are persons 62 years of age or older.

2) Eligible properties are one unit dwellings, including units in condominiums.

3) Eligible borrowers should own their homes free and clear or with liens not exceeding the principal limit. (See Paragraph 4-2E. for instructions regarding existing liens that may be paid off or subordinated.)

**1-4 PRINCIPAL LIMIT.** [<TOP>](#) The amount that the borrower can receive from a reverse mortgage is determined by calculating the principal limit. The figure increases monthly and represents the maximum payment that a borrower may receive (See Chapter 5).

A. The principal limit at origination is based on the age of the youngest borrower, the expected average mortgage interest rate, and the maximum claim amount.

1) Expected Average Mortgage Interest Rate ("expected rate"). The expected rate is fixed throughout the life of the loan

and is used to determine payments to the borrower. For a fixed rate loan, the expected rate is the fixed interest rate. For an adjustable rate loan, the expected rate is the sum of the lender's margin and the U.S. Treasury Securities rate adjusted to a constant maturity of ten years.

2)Maximum Claim Amount. The maximum claim amount is the lesser of the appraised value of the property or the maximum mortgage amount for a one-family residence that HUD will insure in an area under Section 203(b)(2) of the National Housing Act. The maximum claim amount is established when the Conditional Commitment is issued and represents the maximum amount that HUD will pay on a claim for insurance benefits.

B.The principal limit increases each month by one-twelfth of the sum of the expected rate and the annual mortgage insurance premium (MIP) rate of 0.5%.

C.Except in limited circumstances, the borrower will be unable to receive additional payments once the outstanding balance equals the principal limit.

**1-5 PAYMENT PLAN.** [<TOP>](#) The borrower has the choice of receiving the mortgage proceeds through five basic payment plans (See Chapter 5):

A.Tenure. Under this payment plan, the borrower will receive equal monthly payments from the lender for as long as the borrower lives and continues to occupy the property as a principal residence.

B.Term. Under this payment plan, the borrower will receive equal monthly payments from the lender for a fixed period of months selected by the borrower.

C.Line of Credit. Under this payment plan, the borrower will receive the mortgage proceeds in unscheduled payments or in installments, at times and in amounts of the borrower's choosing, until the line of credit is exhausted.

D.Modified Tenure. Under this payment plan, the borrower may combine a line of credit with monthly payments for life, or for as long as the borrower continues to live in the home as a principal residence. In exchange for reduced monthly payments, the borrower will set aside a specified amount of money for a line of credit, on which he or she can draw until the line of credit is exhausted.

E.Modified Term. Under this payment plan, the borrower may combine a line of credit with monthly payments for a fixed period of months selected by the borrower. In exchange for reduced monthly payments, the borrower will set aside a specified amount of money

for a line of credit, on which he or she can draw until the line of credit is exhausted.

**1-6 CHANGING THE PAYMENT PLAN.** [<TOP>](#) The borrower will be able to change the type of payment plan throughout the life of the loan (See Chapter 5 and HUD Handbook 4330.1).

A.The borrower may change the term of payments, may receive an unscheduled payment, may suspend payments, may establish or terminate a line of credit, or may receive the entire net principal limit (i.e., the difference between the current principal limit and the outstanding balance) in a lump sum payment.

B.With all payment plans, the lender must be able to make lump sum payments up to the net principal limit at the borrower's request.

**1-7 SHARED APPRECIATION.** [<TOP>](#) A shared appreciation mortgage, where the borrower promises to pay the lender a percentage of the appreciation in the value of the property, in addition to the outstanding balance, when the mortgage is due and payable, is also available with all five payment plans (See Chapter 5).

A.Under this type of mortgage, the borrower may have the benefit of a lower interest rate and, therefore, higher monthly or line of credit payments.

B.A lender that offers shared appreciation mortgages must also offer comparable mortgages without shared appreciation.

C.With shared appreciation mortgages, the lender can only choose the shared premium insurance option (See Paragraph 1-11 for insurance options).

**1-8 INTEREST RATE.** [<TOP>](#) Interest may accrue at a fixed or adjustable rate, as negotiated between the borrower and the lender.

A.For adjustable rate mortgages:

1)The mortgage interest rate is set at the U.S. Treasury Securities rate adjusted to a constant maturity of one year, plus a margin which is the same as the margin used to determine the expected average mortgage interest rate.

2)The lender must offer a rate that adjusts annually (with a 2% annual cap and a 5% lifetime cap), but may also offer a rate that adjusts monthly (with only a lifetime cap established by the lender).

B.Interest will accrue daily and be added to the outstanding balance monthly.

C. The borrower will not be able to change from a fixed to an adjustable rate and vice versa after closing.

**1-9 COUNSELING.** [<TOP>](#) The borrower is required to receive counseling before the HECM application is processed. Counseling will be provided by HUD-approved housing counseling agencies and will focus on the different types of home equity conversion mortgages available, the suitability of a home equity conversion mortgage for the borrower, and the alternatives to a home equity conversion mortgage. Refer to Chapter 2 for counseling procedures and requirements.

**1-10 MORTGAGE INSURANCE PREMIUM (MIP).** [<TOP>](#) The borrower will be charged mortgage insurance premiums to reduce the risk of loss in the event that the outstanding balance, including accrued interest, MIP, and fees, exceeds the value of the property at the time that the mortgage is due and payable. HUD will select an agent to collect MIP (see Chapter 7).

A. Types of mortgage insurance premiums:

1) A one-time non-refundable initial MIP equal to 2% of the maximum claim amount will be assessed at closing. It may be paid in cash by the borrower or may be added to the outstanding balance. It must be remitted by the lender to HUD before the loan can be endorsed.

2) A monthly MIP equal to one-twelfth (1/12) of the annual rate of 0.5% of the outstanding balance will be assessed throughout the life of the loan. The MIP will be added to the outstanding balance and remitted to HUD monthly by the lender.

B. Remittance Requirements. Both the initial and monthly MIP will be paid electronically. The lender, therefore, will be required to:

1) Establish a Pre-Authorized Debit (PAD) account for the purpose of remitting MIP payments to HUD. Refer to Appendix 23 for procedures to establish a PAD account.

2) Use a personal computer (PC), modem, and printer which are compatible with the equipment used by an agent selected by HUD to collect the MIP. Refer to Chapter 7 and Appendix 23 for details concerning equipment requirements.

**1-11 INSURANCE OPTIONS.** [<TOP>](#) At the time the loan is closed, the lender will choose between two insurance options.

A. Assignment (See Chapter 8). The lender will have the right to

assign the mortgage to HUD when the outstanding balance is equal to or greater than 98% of the maximum claim amount, or when a request for a line of credit draw will cause the outstanding balance to equal or exceed 98% of the maximum claim amount. The lender will be able to receive insurance benefits at that time.

B. Shared Premium (See HUD Handbook 4330.1). The lender holds the loan for its entire term and retains a portion of the monthly MIP. If the outstanding balance exceeds the property value at the time that the mortgage is due and payable, the lender receives insurance benefits up to the maximum claim amount and compensates for any losses with retained MIP.

**1-12 SERVICING.** [<TOP>](#) The lender is permitted to charge the borrower a servicing fee if this cost has not already been priced into the borrower's mortgage interest rate.

A. If the lender chooses to assess a servicing fee, the fee is established at closing as a monthly figure and the amount necessary to pay this fee throughout the life of the loan is calculated and set aside from the principal limit at closing (see Paragraph 5-7B. for calculations).

B. The servicing fee that may be charged on fixed rate or annually adjustable loans may not exceed thirty dollars (\$30.00) per month. The servicing fee that may be charged on monthly adjustable loans is uncapped.

C. The lender adds this fee to the borrower's outstanding balance monthly, and cannot assess any other fees to cover the costs of servicing.

**1-13 RECOVERY OF MORTGAGE PROCEEDS.** [<TOP>](#) The borrower may occupy the property until the mortgage becomes due and payable. A mortgage will become due and payable when the borrower dies, the property is no longer the borrower's principal residence, the borrower does not occupy the property for 12 consecutive months for health reasons, or the borrower violates the mortgage covenants.

A. When the mortgage becomes due and payable, the property will normally be sold by the borrower or the borrower's estate to pay off the outstanding balance on the mortgage.

B. Since a HECM is a non-recourse loan, the lender's recovery from the borrower will be limited to the value of the home. There will be no deficiency judgment taken against the borrower or the estate because there is no personal liability for payment of the loan balance.

C. When the proceeds from the sale of the property are insufficient to pay off the outstanding balance, the lender will file a claim

for the difference between the proceeds from the sale of the property and the outstanding balance, up to the maximum claim amount. For further instructions with respect to filing a claim, lenders may contact the Single Family Claims Support Service Center at 703/235-9102.

**1-14 DIRECT ENDORSEMENT AND COINSURANCE.** [<TOP>](#) Due to the mortgage lending industry's unfamiliarity with the program and the unusual nature of the program, lenders will not be able to process applications for these mortgages through the Direct Endorsement or Coinsurance Programs.

**1-15 CHUMS LENDER ACCESS SYSTEM (CLAS).** [<TOP>](#) Lenders may utilize the CLAS system during the processing of their HECM cases. CLAS provides an electronic means of communicating with HUD on FHA mortgage applications. Lenders now have a choice of vendors; the United Communications Group [an affiliate of the Mortgage Bankers Association] offers CLAS through their ECHO network (800/929-4824), and Fannie Mae offers CLAS through their MORNET system (800/752-6440).

The following are brief descriptions of each request type in the CHUMS lender Access System (CLAS version 7.0A) that is available for use in processing a HECM loan:

A.Receiving/Assignment. This request allows the lender to request a case number and appraisal assignment for a property. CLAS Receiving and Assignment requests use interactive CHUMS screens and require HUD intervention.

B.Case Status. This request allows lenders to obtain a copy of the Case Status screen. The lender can also request a list of existing cases by address, borrower name, or borrower social security number. The requests are processed without HUD intervention.

C.MIC Case Status. This request provides the lender with MIC and MIP information (i.e., endorsement date, MIP amount due, MIP amount received). This type of request can be made by case number only, and can be processed without HUD intervention.

D.Reports. The lender can order specialized CLAS reports. These reports include endorsement, MIP and pipeline reports. The reports are processed without HUD intervention. The reports will be generated twice a week and returned to the lender.

E.Compliance Inspectors. The lender may have a compliance inspector assigned after a case number has been issued. Requests will only be accepted if an inspector has not already been assigned to the case. These requests are processed without HUD intervention.

F. Duplicate MICs. The lender may request a duplicate MIC through CLAS. If the case number is on the system, the duplicate MIC will automatically be inserted into the local HUD office print queue. If the case has been archived, a restore of that case will be automatically triggered. When the case is restored, the duplicate will automatically be inserted into the print queue. It is the local HUD office's responsibility to print and mail the duplicate MIC to the lender. The return address on the duplicate MIC will be that of the lender who requested the duplicate. The duplicate MIC will display the message "DUPLICATE VIA CLAS". Only requests for duplicate MICs will be accepted. Original MICs cannot be printed through this feature.

G. Case Cancellation. The lender may cancel a case number through CLAS. Requests are processed without HUD intervention.

**1-16 BASIC PROGRAM OUTLINE.** [<TOP>](#) The following is a brief description of the processing of a reverse mortgage. The chapters of the handbook are generally arranged in this order.

A. The borrower receives counseling from a HUD-approved housing counseling agency. The borrower need not have contacted a lender to receive counseling.

B. The lender submits an application for valuation analysis of the property to the local HUD office, and if the property is approved, a conditional commitment is issued on the property.

C. Borrower eligibility is determined by verifying the age of the borrower and reviewing title evidence and the existing indebtedness on the property, if any. A firm commitment is issued.

D. For the purpose of estimating the borrower's principal limit before closing, the lender uses the indices in effect at the time the application is signed by the borrower. Based on this figure, the borrower chooses a payment plan.

E. On the date of closing, the expected rate, and the mortgage interest rate for adjustable rate HECMs, are set. The loan is closed and the lender chooses the assignment or shared premium option for recapturing the mortgage proceeds. The lender must also remit the initial MIP electronically to the agent.

F. Disbursement of loan proceeds to the borrower may begin.

G. When the case binder is complete, the lender submits it to the local HUD office and a Mortgage Insurance Certificate is issued, endorsing the mortgage for insurance. HUD signs the Loan Agreement.

H. The lender adds the monthly MIP to the outstanding balance and remits the premium to HUD. The monthly MIP accrues daily on the

outstanding balance on the loan at a rate equivalent to an annual rate of one half of one percent. Lenders who have chosen the shared premium option will retain a portion of the monthly premium.

I. When the indebtedness on the mortgage equals 98% of the maximum claim amount, or if a request for a line of credit draw will cause the outstanding balance to equal or exceed 98% of the maximum claim amount, and any time thereafter:

1) Lenders that have chosen the assignment option may assign the mortgage to HUD and receive a payment on a claim not greater than the maximum claim amount.

2) Lenders that have chosen the shared premium option will not have the option of assigning the mortgage to HUD.

J. When the mortgage becomes due and payable,

1) The borrower or his or her estate will pay:

a. An amount equal to the lesser of the mortgage balance or the sales proceeds, if the property is sold by the borrower or his or her estate for at least 95% of the fair market value of the property.

b. The outstanding balance will include an amount equal to the lender's share of any appreciation in the property's value, if the mortgage has a shared appreciation agreement.

2) Otherwise, the lender will recapture the mortgage proceeds from the acquisition and sale of the property.

K. If the proceeds from the sale of the property are not sufficient to pay the outstanding balance, lenders that have chosen the assignment option but have not assigned the mortgage and lenders that have chosen the shared premium option may submit a claim for insurance benefits up to the maximum claim amount.

## **CHAPTER 2. BORROWER COUNSELING**

**2-1 PURPOSE.** [<TOP>](#) A borrower applying for a HECM must receive counseling and a counseling certificate (see Appendix 16) from a HUD-approved housing counseling agency. This chapter explains the responsibilities of the lender, the local HUD office and HUD-approved housing counseling agencies in educating and counseling the borrower about reverse mortgages and their suitability to the borrower's financial needs and situation.

**2-2 ELIGIBLE COUNSELING AGENCIES.** [<TOP>](#) Housing counseling agencies approved in



accordance with the procedures in HUD Handbook 7610.1 are eligible to provide the counseling services required under the HECM program.

A. Agencies currently approved by HUD to provide comprehensive counseling are eligible to provide HECM counseling.

B. Agencies not currently approved by HUD may become approved by contacting the Loan Management Branch at the local HUD office and fulfilling the requirements of HUD Handbook 7610.1.

C. Counseling agencies that specialize in reverse mortgage counseling are eligible for HUD approval as long as HUD Handbook 7610.1 requirements for approval are met.

D. Regional Offices of the Administration on Aging (AoA) and state agencies on aging will assist in identifying agencies suitable for approval by HUD as HECM counseling agencies.

E. State agencies on aging and area agencies on aging may be eligible to become HUD-approved counseling agencies.

F. If a public or private nonprofit housing counseling agency is not available in a particular area, it is permissible for local HUD office staff to become trained in order to counsel prospective HECM borrowers. The decision to become trained and to counsel is fully within the discretion of the local HUD office.

**2-3 COUNSELING REFERRAL PROCEDURES.** [<TOP>](#) The procedures below should be followed to ensure that the borrower receives the required counseling at the time he or she applies for a HECM.

A. If the lender receives a request from a borrower to apply for a HECM, the lender should refer the borrower to a housing counseling agency for counseling by providing the borrower with a list of the names, addresses and phone numbers of the HUD-approved counseling agencies in the area.

B. At the time that the lender refers the borrower to a counseling agency, it may provide the borrower with copies of the mortgage, note and Loan Agreement.

C. The lender may complete the borrower's application before referral, however, the lender can not charge the borrower for this service if the borrower does not choose to attend a counseling session or apply for a HECM after counseling.

The lender can not begin the process of ordering a property appraisal or any other action that would result in a charge to the potential borrower until the borrower has received counseling, and the lender has received the counseling certificate from the borrower.

**2-4 BORROWERS LACKING LEGAL COMPETENCY.** [<TOP>](#) For borrowers lacking legal competency, the counseling session may be conducted with a person holding a power of attorney, or with a court-appointed conservator or guardian (see Paragraph 4-6).

**2-5 REQUIREMENTS FOR HOUSING COUNSELING.** [<TOP>](#) The borrower must receive counseling, and a counseling certificate, to be eligible for a HECM.

A. The counseling agency should provide counseling to all interested persons. A person need not have been in contact with a lender to receive counseling.

B. The counselor must discuss the following matters with the potential borrower:

1) The financial implications of entering into a home equity conversion mortgage;

2) A disclosure that a home equity conversion mortgage may have consequences for the borrower's taxes, estate, and eligibility for assistance under Federal and state programs;

3) The other home equity conversion options that are or may become available to the homeowner, such as sale-leaseback financing, deferred payment loans, and property tax deferral;

4) The options other than home equity conversion that are available to the borrower, including other housing, social service, health, and financial options; and

5) Any other information that HUD may require.

C. Housing counselors should make every effort to provide HECM counseling on a face-to-face basis. This method allows for greater participation by the homeowner, and also allows the counselor to more accurately determine the homeowner's understanding of the program. Telephone counseling should be an alternative only where face-to-face counseling is unfeasible. Telephone counseling should not even be mentioned as an alternative to the homeowner unless the possibility of face-to-face counseling has been completely ruled out.

D. Housing counselors should make every effort to conduct counseling Sessions in the home of the potential borrower and should invite the participation of the children and other advisors of the borrower.

E. The counseling agency must issue a certificate to the borrower certifying that the borrower has received counseling. The borrower must submit this certificate (Appendix 16) to the lender

for submission to HUD as part of the lender's application for mortgage insurance (see Paragraphs 4-6E. and 4-7E.).

1)The certificate issued by the counseling agency is not an opinion or decision by the agency about the suitability of a reverse mortgage for the borrower.

2)The counseling agency should advise the potential borrower that the decision to apply for a reverse mortgage is the borrower's, and the decision regarding the borrower's eligibility is the lender's and HUD's.

**2-6 SOURCES OF INFORMATION FOR COUNSELING.** [<TOP>](#) The counseling agency must be able to advise the borrower about the alternatives to reverse mortgages.

A.HUD has prepared Options for Elderly Homeowners: A Guide to Reverse Mortgages and their Alternatives, which describes both alternative forms of home equity conversion and alternatives to home equity conversion. It is available for \$4.00 from HUD USER, P. O. Box 6091, Rockville, MD 20850. To order using a credit card, call 800/245-2691 or 301/251-5154.

B.Counseling agencies should call the numbers in the guide for their State to obtain information on the specific programs offered by each State, and should update this information at regular intervals.

C.Counseling agencies should contact the area agency on aging in their area and establish a cooperative working relationship to become aware of the resources available to elderly homeowners. The names and addresses of the area agencies on aging are available from the state agencies on aging listed in the guide.

## **CHAPTER 3. PROPERTY ANALYSIS**

**3-1 PURPOSE.** [<TOP>](#) This chapter explains the procedures for the lender to follow in submitting the property for valuation analysis. The procedures for the local HUD office to follow in appraising and analyzing the property are also explained. Refer to HUD Handbook 4150.1 for standard valuation analysis procedures. This chapter supersedes that handbook only as noted below.

**3-2 ORDERING THE APPRAISAL AND OBTAINING A CASE NUMBER.** [<TOP>](#)  
To order an appraisal and receive a case number, a lender should do the following:

A.Complete Form HUD 92800, Application for Property Appraisal and Conditional Commitment.

1)The form should be completed according to the instructions included on the form.

2)The lender must type "Home Equity Conversion Mortgage" in Block 5 under the name and address of the lender.

B.Follow local HUD office procedures to obtain a case number and an appraisal assignment.

1)The lender should identify the case as a Section 255 mortgage and provide information on the property address and other necessary information.

2) CHUMS will assign the next available case number.

3)Applications will be assigned regular case numbers, and will be distinguished by CHUMS according to separate Section of the Act ADP codes:

a.911 - fixed rate HECM with assignment option

b.912 - adjustable rate HECM with assignment option

c.913 - fixed rate HECM with shared premium option

d.914 - adjustable rate HECM with shared premium option

e.915 - fixed rate HECM with shared appreciation option

f. 916 - adjustable rate HECM with shared appreciation option

C. Send copies 1, 3 and 4 of the Form HUD 92800 (the lender should retain copy 2), along with a Uniform Residential Appraisal Report (URAR), to the assigned appraiser.

D. Send a Uniform Case Binder to the local HUD office with the case number written in the designated spaces. Refer to HUD Handbook 4165.1 for case binder specifications.

E. Lenders may also utilize the CHUMS Lender Access System (CLAS) in order to request a case number and appraisal assignment for a property. CLAS Receiving and Assignment requests use interactive CHUMS screens and require HUD intervention. See Paragraph 1-15.

**3-3 REQUIREMENTS FOR APPRAISALS.** [<TOP>](#) The financial soundness of the HECM

program requires an accurate determination of property value and property condition. The eventual recovery of the mortgage proceeds is highly dependent on receiving a predictable sum from the sale or refinance of the subject property.

A. The appraisal must be completed on the URAR in accordance with current HUD Valuation policy.

1)When estimating value, the appraiser should carefully analyze the condition of the property and the surrounding neighborhood.

2)Repairs required to allow the property to meet Minimum Property Standards for existing properties (see HUD Handbook 4905.1) and the presence of defective paint surfaces should be explicitly noted.

3)A property should not be rejected by the appraiser. If required repairs are estimated to cost more than 30% of the maximum claim amount (see Paragraph 3-8), the Valuation Branch of the local HUD office should review the property to determine if it is acceptable for the program.

4)The appraiser should include estimates of taxes and hazard insurance.

B. At the discretion of the local HUD office, appraisals performed for the Section 203(b) and 234(c) mortgage insurance programs may be used for HECMs.

C.A Certificate of Reasonable Value from the Department of Veterans Affairs (VA-CRV) can not be substituted for an FHA appraisal.

### **3-4 ELIGIBLE PROPERTIES. <TOP>**

A. Eligible properties are existing, one unit properties.

1)This guideline, which excludes two-, three-, and four-unit properties is imposed by the statute authorizing the program.

2)The classification of the property as a one-, two-, three-, or four-unit property occurs when the property is appraised. In defining the number of units on a property, the appraiser focuses on the viability of each unit as an independent, self-supporting unit. Characteristics such as separate kitchen and bathroom facilities, private entrances and separate legal addresses are all considered in this determination. Whether or not two residences share the same property or simply share a common wall is also a consideration. Therefore, it is important that lenders not rely on the assumptions of the homeowner when advising the homeowner of his or her eligibility for the program. The final decision regarding the classification of the property is made by the appraiser.

B. Provided that a manufactured home complies with Paragraph 3-4 of Handbook 4145.1, it is eligible under the following circumstances:

1)The home must have a floor area of no less than 400 square

feet.

2)The home must be constructed in conformance with Federal Manufactured Home Construction and Safety Standards, as evidenced by an affixed certification label, according to 24 CFR 3280.8. Only manufactured homes produced after June 15, 1976, will bear that seal. Consequently, manufactured homes produced prior to that date are ineligible for HECMs.

3) The home must be classified and taxed as real estate.

4)The manufactured unit must not have been installed or occupied previously at any other site or location.

C. Eligible condominiums must be part of a HUD-approved condominium project (see HUD Handbook 4265.1). Each local HUD office has a list of the condominium projects approved within its jurisdiction and can provide instructions on obtaining HUD approval of a condominium project.

D. Units in cooperative housing developments are not eligible.

E. The mortgage must be on a property held in fee simple, or under a lease for not 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.

F. If a property is located in a Planned Unit Development (PUD), the lender must ensure that the development has been approved by HUD (see HUD Handbook 4150.1). The local HUD office maintains a list of approved PUDs within its jurisdiction.

G.A property eligible for mortgage insurance only through HUD's Special Risk Insurance Fund [e.g. pursuant to Section 223(e)] is not eligible for mortgage insurance under this program.

H. Requirements for maintaining flood insurance coverage.

1)Flood insurance requirements must be met if the mortgage is to cover property that:

a. Is located in an area designated by the Federal Emergency Management Agency (FEMA) as a flood plain area having special flood hazards, or

b. Is otherwise determined by the Commissioner to be subject to a flood hazard.

2) No mortgage may be insured on such a property unless:

a. The community in which the area is situated is participating in the National Flood Insurance Program (NFIP), and

b. Such insurance is obtained by the mortgagor.

3)The requirement for flood insurance shall be effective July 1, 1975, or one year after the date of notification by FEMA to the chief executive officer of a flood prone community that such community has been identified as having special flood hazards, whichever is later.

4)The flood insurance shall be maintained during such time as the mortgage is insured, in an amount at least equal to either the outstanding balance of the mortgage, or the maximum amount of NFIP insurance available with respect to the property, whichever is less.

**3-5 REQUIREMENTS FOR EXISTING HOUSING.** [<TOP>](#) The appraisal should designate required repairs which are necessary for the property to meet the minimum acceptable level of quality for existing properties (see Handbook 4905.1).

A. An estimate of the cost of the repairs will be provided by the appraiser.

1)If the required repairs are substantial, the appraiser can determine that he or she is not qualified to make an accurate determination of the repairs that are required or to estimate the cost of those repairs. Under these circumstances, the appraiser can request that the lender have an inspection performed by a member of the local HUD office's fee inspector panel. That inspector will then determine what repairs are required and give an estimate of those repairs.

2)If the required repairs are substantial, the borrower may obtain the services of a general contractor to complete the repairs. If the contractor's estimate of repairs differs substantially from the estimate prepared by the HUD fee inspector, then the Valuation staff of the local HUD office must reconcile the two estimates.

3)The lender may have a compliance inspector assigned through CLAS after a case number has been issued. Requests will only be accepted if an inspector has not already been assigned to the case. These requests are processed without HUD intervention.

B. Required repairs that are estimated to cost less than 15% of the maximum claim amount can be completed after closing.

1)When required repairs are to be completed after closing, the lender will certify, through the Repair Rider (Appendix 8)

to the Loan Agreement (Appendix 7) to be completed at closing, that repairs will be completed in a satisfactory manner, designed to meet the Requirements for Existing Housing (Handbook 4905.1).

2)The lender's responsibilities under the Loan Agreement and Repair Rider are as follows:

a. The lender must ensure that the property is inspected one or more times by a HUD-approved inspector. The property must be inspected before funds to pay for completed repairs can be disbursed. A Form HUD 92051, Compliance Inspection Report, must be completed and submitted to the HUD Valuation Branch for signature prior to releasing funds.

B. The lender must ensure that all mechanics' and materialmen's liens are released of record.

c. The lender may charge a fee not to exceed the greater of one and one-half (1 1/2) percent of the funds used for repairs or \$50 for the administration of this agreement. This fee is paid to the lender and is independent of the fees paid by the borrower for compliance inspections.

3) Money to pay for required repairs will not be held back in an escrow account. At closing, the borrower must establish a repair set aside at least equal to 150% of the cost of repairs, plus the repair administration fee. The borrower may add additional funds to the repair set aside, but the funds cannot be drawn until the repairs are completed.

a. When individual repairs are completed, the necessary funds will be disbursed from the line of credit; and the lender must ensure that all liens are removed.

b. If the repairs are completed without using all of the funds set aside, the lender must transfer the remaining funds to a line of credit and inform the borrower of the amount transferred.

c. If the cost of the repairs exceeds the amount initially set aside for repairs, the borrower must have the required repairs completed. He or she may draw against a line of credit to cover the excess cost. This procedure might require a recalculation of the borrower's payment plan (see Chapter 5 and HUD Handbook 4330.1).

4)If the required repairs are not completed within the time period specified in the Repair Rider to the Loan Agreement, the lender must discontinue payments on the loan, freezing



the loan at a line of credit status, available only to fund repairs, and mandatory items such as property charges and MIP.

C. Required repairs that are estimated to cost more than 15% of the maximum claim amount must be completed before closing.

1)When required repairs are to be completed before closing, the property must be inspected before closing and a Form HUD 92051, Compliance Inspection Report, certifying that required repairs have been completed, must be submitted to the local HUD office.

2)When required repairs are to be completed before closing, the borrower can have the repairs completed with the intention of paying the contractors with the mortgage proceeds. However, any amounts owed must be paid at closing and all liens removed at closing. Therefore, any amounts owed must not exceed the borrower's net principal limit at closing.

D.HUD only requires that the property meet the Requirements for Existing Housing in Handbook 4905.1. Many repairs desired by the borrower, therefore, will not be required by HUD nor will they be included in the Repair Rider to the Loan Agreement. Consequently, their completion will not be a condition of the approval of the mortgage. Furthermore, the lender cannot require that the borrower make repairs not required to meet minimum property standards.

E. In certain situations, the borrower will be required to treat any defective paint surfaces after closing for properties built before 1978, and comply with the Lead-base Paint Poisoning Prevention Act (LPPPA) requirements.

1)When children under the age of seven will be residing in the property, the borrower must treat the defective paint surfaces in accordance with LPPPA requirements.

2)If children under the age of seven will not be residing in the property, the borrower can certify to that fact in writing, and the treatment of defective paint surfaces will not be required. This certification can accompany the appraisal or the approval of the property can be conditioned on the receipt of this certification.

### **3-6 PROTECTIVE COVENANTS IN HOUSING COMMUNITIES FOR THE ELDERLY. <TOP>** The

Department's regulations concerning the acceptability of protective covenants in HUD approved condominium projects and planned unit developments (PUDs), required by the Fair Housing Amendments Act of 1988, are applicable for the HECM program. The regulations essentially ban protective covenants based on familial status, but

contain certain exemptions. These exemptions allow "retirement" communities to be HUD approved under two sets of circumstances. The housing in the community:

A. Must be intended for, and solely occupied by, persons 62 years of age or older; or

B. Must be intended and operated for occupancy by at least one person 55 years of age or older per unit, and provide significant facilities and services specifically designed to meet the physical or social needs of older persons, or if it is not practicable to provide significant facilities and services designed to meet the physical or social needs of older persons, the housing facility should be necessary to provide important housing opportunities for older persons.

Lenders should refer to the regulations at 24 CFR Parts 100,103, 104 et. seq. before submitting a project for approval.

**3-7 RECEIPT AND LOGGING OF APPRAISALS.** [<TOP>](#) The appraisal should be logged on CHUMS in accordance with standard single family procedures for HUD processed cases. The Valuation staff should follow standard appraisal review procedures to ensure the quality of the work performed by the appraiser.

**3-8 MAXIMUM CLAIM AMOUNT.** [<TOP>](#) The HUD Valuation Branch will determine the maximum claim amount, depending on the appraised value of the property.

A. The maximum claim amount is the maximum dollar amount that HUD will pay on a claim for insurance benefits.

B. The maximum claim amount is the lesser of the appraised value or the maximum principal amount for a one-family residence under Section 203(b)(2) of the National Housing Act that HUD will insure in the area.

C. Neither the estimate of closing costs nor the initial MIP is used in the calculation of the maximum claim amount.

**3-9 CONDITIONAL COMMITMENT.** [<TOP>](#) The HUD Valuation Branch will issue a Conditional Commitment on Form HUD 92800.5B using CHUMS.

A. The commitment will have a term of six months.

B. The commitment will provide an estimate of taxes and hazard insurance.

C. The HUD 92800.5B will be completed in the same manner as for cases insured under the Section 203(b) program.

D. The HUD 92800.5B will indicate the maximum claim amount in the "Specific Commitment Conditions" section.

E. The HUD 92800.5B should always indicate that the property is an existing dwelling.

F. If repairs are required after closing, Condition 3 of the HUD 92800.5B will be completed, indicating information entered on the Appraisal Disposition Screen 2 on CHUMS. The Form HUD 92800.5B will also indicate that Form HUD 92300 will be completed, designating the necessary amount to complete the required repairs. Refer to Chapter 5 of HUD Handbook 4145.1 for repair set-aside procedures.

**3-10 CASE CANCELLATION.** [<TOP>](#) The lender may cancel a case number through CLAS. Requests are processed without HUD intervention.

## **CHAPTER 4. MORTGAGE CREDIT ANALYSIS**

**4-1 PURPOSE.** [<TOP>](#) This chapter explains the procedures for completing and processing the borrower's application and for qualifying the borrower.

**4-2 BASIC UNDERWRITING ISSUES.** [<TOP>](#) The underwriting of a HECM differs from standard underwriting procedures in the following ways:

A. The borrower will not be required to pay closing costs in cash at closing, although he or she has the option to do so.

1)With the exception of the origination fee (see Section B below), the borrower is allowed to finance 100% of the closing costs.

2)All expenses that require payment at closing may be added to the outstanding balance. As a result, any future payments of the mortgage proceeds will be calculated from the net principal limit, as described in Chapter 5.

3)The lender may require that the borrower pay in cash for services performed by third parties related to the processing of the borrower's application (e.g. credit report, appraisal, title commitment, etc.). The borrower may request to be reimbursed for these expenses at closing, and have these costs added to the outstanding balance on the mortgage.

B. The lender will be permitted to charge an origination fee agreed upon between the borrower and the lender. This fee will cover expenses incurred in the processing and underwriting of the borrower's loan. However, the borrower will only be permitted to finance (i.e. add to the outstanding balance at or after closing) an origination fee of no greater than eighteen hundred dollars

(\$1,800.00). That amount, along with the fee charged for administering the Repair Rider (See Chapter 3, Paragraph 3-5B), can be added to the outstanding balance. Any portion of the origination fee that exceeds the financed amount must be paid in cash by the borrower at closing. A Verification of Deposit must be submitted as part of the required mortgage credit documentation for any portion of the loan origination fee that will be paid in cash.

C. The lender will not be permitted to charge discount points.

D. The options for adjustable rate mortgages (ARMs) differ from standard FHA-insured ARMs.

1) If the lender chooses to offer an ARM, it must offer an ARM that limits changes in the interest rate to a maximum of two percent (2%) per year and five percent (5%) over the life of the loan. The interest rate may be adjusted only once per year.

2) The lender may also offer an interest rate that is adjusted monthly. Under this option, the lender must establish a lifetime cap on rate adjustments, but is unrestricted in which cap is chosen.

E. The property need not be debt-free for the borrower to be eligible.

1) The indebtedness on an existing lien must be satisfied at closing or subordinated to the HECM mortgages.

2) If the borrower chooses to satisfy an existing lien, its total indebtedness must not be greater than the borrower's net principal limit at closing, unless the borrower has other financial resources from which to draw in order to satisfy the lien.

F. Instead of calculating a monthly principal and interest payment, a principal limit must be calculated to determine the payments that a borrower may receive. This method is explained in Chapter 5.

G. The borrower will not be required to establish an escrow account for the purpose of collecting annual payments for property taxes and hazard insurance. However, the borrower has the option of requiring that the lender pay taxes and hazard insurance premiums by withholding the necessary amounts from the borrower's payments or by withdrawing the required amounts from the borrower's line of credit. The funds to make these payments are added to the outstanding balance when the payments are actually made (see Paragraph 8-9).

**4-3 MORTGAGE CREDIT ELIGIBILITY REQUIREMENTS.** [<TOP>](#) A borrower must be rejected for any of the following reasons:

A. Delinquent Federal debts. If the borrower is presently delinquent on any Federal debt (e.g., VA-guaranteed mortgage, HUD Section 312 Rehabilitation loan or Title I loan, Federal student loan, Small Business Administration loan, delinquent Federal taxes, etc.) or has a lien, including taxes, placed against his or her property for a debt owed to the United States, the borrower is not eligible until the delinquent account is brought current, paid or otherwise satisfied, or a satisfactory repayment plan is made between the borrower and the Federal agency owed and is verified in writing.

B. Suspensions and debarments. A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a HECM. The lender must examine HUD's "Limited Denial of Participation (LDP) List" and the government-wide General Services Administration's (GSA) "List of parties Excluded from Federal Procurement or Nonprocurement Programs." If the name of any party to the transaction appears on either list, the application is not eligible for mortgage insurance.

C. Credit Alert Interactive Voice Response System (CAIVRS). Lenders must screen all borrowers using CAIVRS. If CAIVRS indicates the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by HUD on his or her behalf, the borrower is not eligible. Exceptions to this policy may be granted under the following situations:

1) Assumptions. If the borrower sold the property, with or without a release of liability, to a mortgagor who subsequently defaulted and it can be established that the loan was not in default at the time of assumption, the borrower is eligible.

2) Divorce. A borrower may be eligible if the divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. However, if a claim was paid on a mortgage in default at the time of the divorce, the borrower is not eligible.

3) Bankruptcy. When the property was included in a bankruptcy that was caused by circumstances beyond the borrower's control (such as the death of the principal wage earner; loss of employment due to factory closings, reductions-in-force, or serious long-term uninsured illness), the borrower may be eligible.

If the lender has reason to believe the CAIVRS message is erroneous or must establish the date of claim payment, it must contact the local HUD office for instructions or documentation to

support the borrower's eligibility. The local HUD Office can provide information regarding when the three-year waiting period has passed or that the social security number in CAIVRS is an error.

**4-4 TITLE EVIDENCE.** [<TOP>](#) The lender must submit a title insurance commitment

at least equal to the maximum claim amount with the borrower's application to HUD. If the local HUD office has determined that title insurance cannot be obtained at reasonable rates, an alternative may be substituted. However, in order to avoid incurring unnecessary expenses, the lender must review the following borrower eligibility requirements before ordering a title insurance commitment to be paid for by the borrower:

A. The borrower's age. All borrowers must be at least 62 years old when they sign the Uniform Residential Loan Application (URLA) and the HUD/VA Addendum (Form HUD 92900-A). The lender should request evidence of the ages of all borrowers, and accept all reasonable forms of evidence.

B. The borrower's Federal credit record. The borrower cannot have a delinquent or defaulted Federal debt that cannot be satisfied at closing. Payment of an insurance claim by HUD on a previously insured mortgage does not automatically preclude the borrower from qualifying for a reverse mortgage if valid extenuating circumstances caused the foreclosure (see Paragraph 4-3).

C. The borrower's principal residence. The property must be the principal residence of each borrower, as defined in Paragraph 4-7A. of this chapter. Married spouses or other co-borrowers may be living apart because one of them is temporarily or permanently in a health care facility; however at least one borrower must be living in the home in order for the HECM loan to close.

If, after a review of these requirements, the lender finds that the borrower is not eligible, the borrower should be notified of his or her ineligibility, and the application process must cease. The lender cannot charge the borrower for any services performed after this determination.

**4-5 HOME EQUITY CONVERSION MORTGAGES FOR PROPERTY HELD IN TRUST.** [<TOP>](#) HUD will

insure HECMs on property held in the name of an inter vivos trust, also known as a living trust. In general, a living trust is created during the lifetime of a person [as opposed to a testamentary trust which is created by the person's will after his/her death]. A living trust is created when the owner of property conveys his/her property to a trust for his or her own benefit or for that of a third party [the beneficiaries]. The trust holds legal title and the beneficiary holds equitable title. The person may name him/herself as the beneficiary. The trustee is under a fiduciary responsibility to hold and manage the trust assets for the beneficiary. The trustee's

responsibilities are set out in a trust agreement.

Property held in a land trust is eligible for a HECM if the requirements for a living trust are met. Property held in a living trust is eligible for a HECM if the trust, and the borrowers, meet the following requirements:

A. Conditions for Origination in the Name of a Living Trust.

1) All beneficiaries of the trust must be eligible HECM borrowers at the time of origination and until the mortgage is released [i.e. borrower/beneficiary must occupy the property as a principal residence and new beneficiaries may not be added to the trust]. Contingent beneficiaries, that receive no benefit from the trust nor have any control over the trust assets until the beneficiary is deceased, need not be eligible HECM borrowers.

2) The trustee must sign the mortgage, and the mortgage must be signed by each borrower/beneficiary if necessary to create a valid first mortgage. The borrower/beneficiary must sign the Note and Loan Agreement. The lender may require the signature of the trustee on the Note or the signature of the borrower/beneficiary on the mortgage.

3) The trust shall not be a party to the Loan Agreement. The borrower/beneficiary may issue instructions to the lender to permit the trustee to exercise one or more rights stated in the Loan Agreement on behalf of the beneficiary; i.e. the right to receive loan advances or to request changes in the payment plan.

4) The lender must be satisfied that the trust is valid and enforceable, that it provides the lender with a reasonable means to assure that it is notified of any subsequent change of occupancy or transfer of beneficial interest, and ensures that each borrower/beneficiary has the legal right to occupy the property for the remainder of his or her life.

B. Transfer of the Property Into or From a Trust.

1) The borrower under an insured HECM may transfer the property to a living trust without causing the mortgage to become due and payable if the lender finds that the trust meets all requirements that would have applied if the trust owned the property at closing. The lender may require the trust to formally assume the borrower's obligation to repay the debt as stated in the Note if considered advisable to avoid difficulty in enforcement of the Note and mortgage.

2) If the trust is terminated, or the property is otherwise transferred from an eligible trust holding the property, the mortgage will not become due and payable, provided that one

or more of the original borrowers who signed the Note and Loan Agreement continue to occupy the property as a principal residence and continue to retain title to the property in fee simple or on a leasehold interest as set forth in 24 CFR Section 206.45(a).

**4-6 POWER OF ATTORNEY AND CONSERVATORSHIP GUIDELINES. [<TOP>](#)**

The following guidelines apply to all phases of HECM loan processing:

A. Mortgage Loan Application.

1) Borrowers with legal competency:

a. All borrowers must sign mortgage loan application.

b. Mortgage loan application may be executed on behalf of a borrower by an "agent" or "attorney in fact" holding a durable power of attorney specifically designed to survive incapacity and avoid the need for court proceedings.

2) Borrowers lacking legal competency:

a. Incompetent borrower may not sign the mortgage loan application.

b. Court-appointed conservator or guardian may execute any necessary documents, including the mortgage loan application. The lender must provide evidence that the conservator or guardian has authority to obligate the borrower.

c. A person holding a durable power of attorney specifically designed to survive incapacity and avoid the need for court proceedings, may execute any necessary documents, including the mortgage loan application.

(1) To be valid, a durable power of attorney must be prepared when the "principal" is competent to understand the nature and significance of the instrument.

(2) The durable power of attorney must comply with State laws regarding signatures, notarization, witnesses, and recordation.

B. Closing Documents. Power of attorney (durable or otherwise) may be used for closing documents. Any power of attorney must comply with State law and allow for the Note to be legally enforced in that jurisdiction.



C. Counseling Session. For borrowers lacking legal competency, the counseling session may be conducted with a person holding a power of attorney, or with a court-appointed conservator or guardian.

**4-7 REQUIRED MORTGAGE CREDIT DOCUMENTATION.** [<TOP>](#) After performing a preliminary eligibility review of the borrower, the lender must submit the following documents to the local HUD office for Mortgage Credit Analysis:

A. Uniform Residential Loan Application (URLA) and HUD/VA Addendum (Form HUD 92900-A). This application must be completed according to the instructions contained in Appendix 15. At the time that the lender completes the borrower's application, it must do the following:

1) Participate in a face-to-face interview with the borrower in which the information on the application is verified by the borrower. Exceptions to this requirement are as follows:

a. A face-to-face interview is not required if the property is at least 50 or more miles from the mortgagee's nearest office, and a face-to-face counseling session was conducted. Under these circumstances, the mortgagee may interview the borrower by telephone, and must certify as to the date and person(s) with whom they spoke. The mortgagee must elicit as complete a picture of the borrower as if a face-to-face interview were conducted.

b. If the borrower lacks legal competency and the loan application is being executed by a person holding a durable power of attorney, or by a court-appointed conservator, the face-to-face interview must be conducted with the person holding the power of attorney or conservator. If the borrower is legally competent and the loan application is being executed by an agent or attorney in fact, then the face-to-face interview may be conducted with the agent, but every effort should be made on the part of the mortgagee to interview the borrower as well. (Geographical limit of 50 miles also applies here).

c. If married spouses, or other co-borrowers, are living apart because one of them is temporarily or permanently in a health care facility, a face-to-face interview is only required with the borrower who is still living in the home.

2) Provide to the borrower blank copies of the first mortgage, first note and Loan Agreement, if it has not already done so, and explain the principal provisions of those documents, including a disclosure of servicing fees, if any are to be

charged.

3) Provide to the borrower a copy of Notice to the Borrower (Appendix 14), which explains the procedures that the borrower should follow in case of chronically late payments or non-payment by the lender. This disclosure must also explain that the borrower's liability is limited to the value of the property at the time the mortgage is due and payable.

4) Explain to the borrower the consequences of placing junior liens on the property.

5) The lender must provide the borrower with a certification for the borrower's signature stating that he or she received copies of the security instruments and the Notice to the Borrower, and that the lender explained the principal provisions of the documents. This document must accompany the application in the mortgage credit package.

B. Credit report for each borrower. A merged in-file report, containing the information currently available from three consumer credit information repositories will fulfill this requirement.

1) The lender's review of the report should be limited to the Public Record Information section, in order to determine whether or not the borrower is delinquent or in default on any Federal debts.

2) Any borrower that is presently delinquent or in default on any Federal debt owed to the United States is ineligible for a HECM until the debt is brought current, paid or otherwise satisfied, or satisfactory repayment arrangements have been made between the borrower and the Federal agency to which the debt is owed and is verified in writing. Additionally, any borrower with a judgment lien against his or her property for a debt owed to the United States is not eligible for a HECM until the judgment is paid or otherwise satisfied.

C. Credit Alert Interactive Voice Response System (CAIVRS). In order to demonstrate evidence of pre-screening, a separate written statement signed by the lender must be prepared containing the authorization code from CAIVRS (see Paragraph 4-3).

D. Title evidence. A title insurance commitment at least equal to the maximum claim amount, showing that the mortgage will be a first lien of record when it is recorded, must be submitted. Other title evidence is acceptable only if the local HUD office determines that title insurance is not available at reasonable rates.

E. Certificate of counseling. The counseling agency will provide a certificate (Appendix 16) attesting to the borrower's attendance at a counseling session. The counseling session may be attended by a person holding a power of attorney or by a conservator. See Paragraph 4-6C.

F. Identification of the borrower. Each borrower must provide picture identification, evidence of his or her age, and evidence of his or her social security number. A photocopy of the picture identification, and of the documents evidencing social security number and age must be included in the application package.

1) Picture identification may be a photocopy of the driver's license, passport, job or trade union identification card, or similar official documentation. If photographic identification is not available, the lender must provide a satisfactory explanation as to why the borrower cannot provide it and what documents the lender examined to establish the identity of the borrower.

2) Social security number documentation must be provided for all borrowers on all transactions. While the actual social security card is not required, the social security number can be obtained from another source such as the driver's license, pay stub or bank statement. The only exception to the social security number requirement is for individuals not required to obtain a social security number, such as employees of the World Bank or foreign employees of embassies. If a borrower contends he or she is not required to obtain a social security number, he or she must execute a certification that a social security number has not been issued.

G. Good Faith Estimate of Settlement Costs. The lender must provide an estimate of settlement costs to the borrower no more than three (3) days after the loan application is provided to the borrower, and a copy of the estimate signed by the borrower should be submitted.

H. Verification of Deposit. Must be submitted for any portion of the loan origination fee that will be paid in cash.

I. Truth-in-Lending Act Disclosure Statement. The lender should comply with requirements in Regulation Z for Open End Credit.

J. ARM Disclosure Statement. For adjustable rate mortgages, the lender must provide the borrower with a disclosure statement in compliance with Regulation Z (12 CFR 226). This statement must be provided to the borrower with the loan application and signed by all borrowers.

K. Shared Appreciation Disclosure Statement. If this is applicable,

besides disclosing the terms of the shared appreciation mortgage, the lender must disclose to the borrower the principal limit, interest rate and monthly payments for a comparable mortgage offered by the lender without shared appreciation. The calculations for a shared appreciation mortgage are explained in Chapter 5.

L. Loan Cost Disclosure Statement. Lenders are required by Section 255 of the National Housing Act to disclose total loan costs for a HECM expressed as an average annual percentage rate for at least two loan terms and two house appreciation rates. Total loan costs include closing cost, interest, mortgage insurance premiums, and servicing fees. In order to satisfy this requirement, lenders must use the HECM spreadsheet software (see Paragraph 5-2) which has been designed to provide this information.

**4-8 MORTGAGE CREDIT ANALYSIS.** [<TOP>](#) HUD Mortgage Credit analysis can only be performed by a HUD staff examiner and should comprise the following:

A. Borrower's application. Refer to Appendix 15 to ensure that the URLA and Form HUD 92900-A were completed correctly. The review should include a check of the following:

1)The youngest borrower must be 62 years of age or older by the date the application is signed. The "Age" block in SECTION III must reflect the borrower's current age.

2)The subject property should be listed as the borrower's address, and "Primary Residence" must be checked in SECTION II.

a. The subject property must be the borrower's principal residence, which is defined as the dwelling where the borrower maintains his or her permanent place of abode and typically spends the majority of the calendar year. A person may have only one principal residence at any one time.

b. The property will be considered to be the principal residence of any borrower who is temporarily or permanently in a health care institution as long as the property is the principal residence of at least one other borrower who is not in a health care institution.

3)The principal limit in the "Amount" block in SECTION I should be verified to ensure that it was calculated properly.

a. The lender's calculations should be checked against the procedures outlined in Chapter 5 for determining the principal limit.

b. The expected average mortgage interest rate used by the lender in calculating the borrower's principal limit should be the fixed interest rate or, for an ARM, the U.S. Treasury Securities Rate adjusted to a constant maturity of ten years plus the margin used by the lender in determining the borrower's adjustable rate. The rates used should be those that are in effect on the date that the application is signed.

4) Liabilities from existing liens on the property, delinquent Federal debts, repairs to be completed, and the initial MIP (SECTION VII. Blocks b., d., and n.) should be verified.

5) SECTION IX. must have original signatures to certify to the information on the application.

6) The Mortgage Credit Examiner must complete the entire worksheet in Appendix 18 using the information on the URLA and Addendum. The number of children should be entered regardless of whether or not they are dependent. Information from the worksheet will be entered into CHUMS.

B. Borrower's credit. Review the borrower's credit report to check for any claims or defaults on debts owed to the Federal government, and any existing debts on the property.

1) Generally unsecured debts other than delinquent Federal debts, regardless of their status (e.g. delinquent credit card accounts), should not impact negatively on the borrower's eligibility.

2) Any delinquent Federal debts or liens on the property must not be in excess of the borrower's net principal limit, unless the borrower has a separate source of funds from which to draw. Liens must be removed or subordinated at closing. Conditions should be placed on the Firm Commitment to ensure that this requirement is met.

3) If HUD has previously paid an insurance claim for an insured mortgage on a property owned by the borrower, the borrower is not ineligible for the program if extenuating circumstances caused the foreclosure to occur. However, if extenuating circumstances did not exist, the borrower is ineligible for a reverse mortgage (see Paragraph 4-3).

C. CAIVRS Authorization Code. Review the statement signed by the lender containing the CAIVRS Authorization Code. If the CAIVRS finding indicates that a claim or default against the borrower exists, the local HUD office must notify the lender to have the borrower correct or explain the finding (see Paragraph 4-3).

D. Title evidence. Review the title insurance commitment (or other

evidence acceptable to the local HUD office) to ensure that it is at least equal to the maximum claim amount and that the borrower is able to pay off any existing liens at closing.

1)The title evidence should meet the standards required for standard FHA-insured mortgages (24 CFR 203.387 and 203.389 or 234.285).

2)The title insurance commitment must show that the insured first mortgage will be a first lien of record when recorded.

3)Special exceptions limiting title insurance due to the unusual characteristics of a reverse mortgage are not acceptable. For example, the following exceptions are not acceptable:

- a. The lack of a stated mortgage term.
- b. Negative amortization.
- c. Shared appreciation.
- d. Compound interest.

4)Where a maximum mortgage amount is stated in the mortgage, the title commitment may contain an exception for loan advances made in excess of that amount.

5)Title insurance is required only for the mortgage to be insured, and not for the second mortgage held by HUD.

E. Certificate of counseling. The certificate from a HUD-approved counseling agency must comply with the model in Appendix 16 and should state that the borrower has received counseling.

F. Identification of the borrower. Copy of a picture identification card, verification of the borrower's Social Security number, and evidence of the borrower's age should be submitted unless conditions for exceptions exist (see Paragraph 4-7F., above).

G. Good Faith Estimate of Settlement Costs. The copy of the signed estimate must be reviewed to verify that the estimate of closing costs is the same as the estimate on the URLA, SECTION VII. Block f.

H. Truth-in-Lending Act Disclosure Statement. The lender must submit copies of any disclosure statements required by Regulation Z for Open End Credit.

I.ARM Disclosure Statement - If the borrower has chosen an adjustable interest rate, the lender must submit a disclosure signed by the borrower that complies with Regulation Z (12 CFR 226).

1)The disclosure statement must include the one-year Treasury rate (index) in effect when the borrower signed the application, and the margin that the lender is using to determine the initial interest rate.

2)Increases of more than one percent to the index, and any increases in the margin after the issuance of the Firm Commitment will require reprocessing of the commitment before the loan can be endorsed.

J. Shared Appreciation Disclosure Statement. If this is applicable, a copy of the statement provided to the borrower, disclosing characteristics of the shared appreciation mortgage and the other options available to the borrower must be signed by the borrower and submitted by the lender.

K. Certification of receipt of closing documents. A certification signed by the borrower must be submitted stating that he or she received copies of the first mortgage, first note, the Loan Agreement, Loan Cost Disclosure Statement, and a Notice to the Borrower explaining the procedures to follow in case of non-payment or late payments by the lender (Appendix 14), and that the lender explained the principal provisions of the documents.

**4-9 FIRM COMMITMENT.** [<TOP>](#) If the borrower is eligible, the Mortgage Credit Branch will issue a Form HUD 92900.4, Firm Commitment, with a term of 90 days or the remaining term on the Conditional Commitment, whichever is longer.

A. Because of the unusual nature of these mortgages, much of the Form HUD 92900.4 will be left blank and should be disregarded.

B. The name of the lender and the borrower, and the property address will appear on the Form HUD 92900.4.

C. The Form HUD 92900.4 will show the issue date and the expiration date of the firm commitment, along with the property value and closing costs, in the spaces identified for this information.

D. The following information will appear in the blank remarks section of the Form HUD 92900.4:

- 1) Principal Limit
- 2) Initial MIP
- 3) Conditions of the Firm Commitment

E. The local HUD office must delete Line (c) of the Lender's Certificate at the top of the Form HUD 92900.4. This line refers to disbursement procedures with a forward mortgage and does not

apply to reverse mortgages.

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## **CHAPTER 5. CALCULATION OF PAYMENTS**

**5-1 PURPOSE.** [<TOP>](#) This chapter explains the procedures to follow in designing and changing the borrower's payment plan. This process involves calculating the borrower's net principal limit for any month during the life of the loan and determining the payments available to the borrower.

**5-2 PERFORMING THE CALCULATIONS.** [<TOP>](#) All of the calculations in this chapter may be made with the aid of:

A. A financial calculator (such as a Hewlett-Packard 12C). See Appendix 21 for payment calculation keystrokes;

B. The formulas in Appendix 22; or

C. HECM spreadsheet software containing computation screens, for use on a personal computer. The software is available free of charge from local HUD offices, or from Computer Data Systems, Inc. (CDSI). In order to download the software from CDSI's computer bulletin board, or obtain the software on a floppy disk, please call 301/921-7271.

**5-3 PAYMENT PLANS.** [<TOP>](#) The borrower can choose from among five different payment plans. The lender may not establish a minimum monthly payment or line of credit draw.

A. Tenure. The borrower may receive fixed monthly payments as long as he or she maintains the property as a principal residence.

B. Term. The borrower may receive fixed monthly payments for a term of months selected by the borrower, as long as he or she maintains the property as a principal residence.

C. Line of Credit. The borrower may elect to make withdrawals at times and in amounts of his or her choosing, as long as he or she maintains the property as a principal residence.

D. Modified Tenure. The borrower may combine a tenure payment plan (fixed monthly payments for as long as property is principal residence) with a line of credit. The borrower sets aside a portion of the principal limit as a line of credit from which to draw at times and in amounts of his or her choosing and receives the rest in equal monthly payments for as long as he or she continues to occupy the home as a principal residence.

E. Modified Term. The borrower may combine a term payment plan



(fixed monthly payments for a term of months) with a line of credit. The borrower sets aside a portion of the principal limit as a line of credit from which to draw at times and in amounts of his or her choosing and receives the rest in equal monthly payments for a term of months selected by the borrower, as long as he or she maintains the property as a principal residence.

**5-4 CHANGING PAYMENT PLANS.** [<TOP>](#) The borrower may change his or her payment plan throughout the life of the loan, and may receive a cash advance in an amount, when added to the outstanding balance, that does not exceed the principal limit. If the new outstanding balance does not equal the principal limit, such an unscheduled payment would result in a new payment plan, with a new monthly payment or line of credit. A draw under an existing line of credit does not result in a new payment plan.

**5-5 PRINCIPAL LIMIT.** [<TOP>](#) The payments that the borrower can receive from a reverse mortgage are determined by calculating the principal limit.

A. The principal limit is the present value of the loan proceeds available to the borrower. It is determined at closing and increases each month by one-twelfth of the sum of the expected average mortgage interest rate ("expected rate") plus the monthly MIP rate.

B. A borrower may choose any payment plan, as long as the payments plus accrued interest, monthly MIP, and funds set aside, if any, do not exceed the principal limit.

C. When the outstanding balance equals the principal limit, the borrower cannot receive any more payments, but may remain in the property as long as he or she desires. For exceptions to this rule, see Paragraph 5-8C.

**5-6 DETERMINING THE BORROWER'S PRINCIPAL LIMIT.** [<TOP>](#)

A. The principal limit for a particular borrower is initially determined at closing using a factor from the table included in Appendix 20.

B. The principal limit is determined by multiplying the maximum claim amount by the factor corresponding to the age of the youngest borrower and the expected rate.

C. The age of the youngest borrower should be rounded to the nearest whole year as of the first day of the month that the loan is closed. For example, if the loan closed in April 1993, and the borrower was born on October 12, 1917, the borrower would be 75 years of age. If the borrower was born on September 27, 1917, he or she would be 76 years of age (for purposes of determining the principal limit).

Example: The factor corresponding to a 75 year old borrower and a 7 3/4 percent expected rate is .554. If she occupies a \$165,000 house in an area where the maximum mortgage limit is \$151,725, the maximum claim amount (the lesser of the house value and the mortgage limit) should be multiplied by .554, resulting in an initial principal limit of \$84,055.65.

**5-7 DETERMINING THE NET PRINCIPAL LIMIT.** [<TOP>](#) To determine the maximum amount of payments that a borrower can receive after closing, the net principal limit is calculated.

A. The net principal limit is calculated by subtracting from the principal limit any initial payments to or on behalf of the borrower, such as the initial MIP, closing costs, or cash payment to the borrower, and any funds set aside from the principal limit for monthly servicing fees (see Paragraph 5-7B.) or set asides for repairs after closing (see Paragraph 3-5) and first-year property charges (see HUD Handbook 4330.1). The net principal limit may be drawn by a borrower as monthly payments, or as a line of credit, or both.

B. A set-aside for monthly servicing fees is calculated by determining a fixed monthly fee, and then determining the present value of that fee using the term used for a tenure payment plan (i.e. to the borrower's 100th birthday) and the compounding rate defined below in 5-8B.2. Example: The present value of a fixed monthly servicing fee of \$25, given a term of 300 months and a compounding rate of .0825 divided by 12 is \$3,192.58. This amount should be subtracted from the principal limit to arrive at the net principal limit that is used for determining monthly payments or a line of credit.

**5-8 DETERMINING TERM OR TENURE MONTHLY PAYMENTS.** [<TOP>](#)

A. Term or tenure monthly payments are determined using the future value of the net principal limit, the term in months, and the compounding rate in a sinking fund formula for payments made at the beginning of a month. (See Appendix 22 for exact formulas).

B. The future value of the net principal limit is then determined using two additional variables--the number of months in the term of the loan and the compounding rate.

1) The length of the term for term payments is the number of years multiplied by 12. The length of the term for tenure payments is 100 minus the age of the youngest borrower multiplied by 12. (Borrowers over the age of 95 are treated as if they were 95 for purposes of this calculation).

2) The compounding rate is one-twelfth of the sum of the expected rate and the annual rate for the monthly MIP (0.5

percent or .005). Example: If the expected rate is 7.75 percent, the compounding rate is .0825 divided by 12, or .006875.

C. The borrower may choose to receive payments in an amount less than the maximum. If the borrower chooses an amount less than \$25.00 per month, the lender may, with HUD concurrence, require the borrower to choose a higher amount or to convert to a line of credit payment plan.

D. Monthly payments to the borrower will usually stop when the outstanding balance, consisting of the payments to the borrower, plus accrued interest, fees, and MIP, equals the principal limit.

1) For term payment plans, the outstanding balance will equal the principal limit at the end of the term. At that point in time the borrower would not receive any more payments from the lender, but would be able to remain in the property as long as he or she desired. For adjustable rate mortgages, payments will continue until the end of the selected term, even if the outstanding balance exceeds the principal limit because the actual average mortgage interest rate exceeds the expected rate. Term Example: Assume that the 75 year old borrower in Paragraph 5-6 has selected a 10-year term payment plan. First, any payments to her, or set-asides, must be subtracted from the principal limit of \$84,055.65. Assume that she wishes to finance the initial MIP of \$3,034.50 and \$2,275.50 of closing costs, for a total initial payment of \$5,310, and does not set aside any of the principal limit for a line of credit. The set-aside for the \$25.00 per month servicing fee is \$3,192.58, resulting in a net principal limit of \$75,553.07. Using the formula in Appendix 22 or a financial calculator, the future value of the net principal limit after 120 months is \$171,917.09. Using the sinking fund formula for payments at the beginning of the month, the term payment for 120 months is \$920.35. By the same method, the monthly payment for a 90-month term would be \$1,120.89 and \$727.97 for a 180 month term.

2) For tenure payment plans, the outstanding balance will equal the principal limit in the year that the borrower becomes 100 years of age. If the borrower lives beyond the age of 100, payments will continue. A borrower with a tenure payment plan has a right to receive payments as long as he or she owns and occupies the property as a principal residence. Tenure Example: Assume that the 75 year old borrower mentioned above has selected a tenure payment plan and she wishes to finance the initial MIP and \$2,275.50 in closing costs, as in the previous example. Using 300 monthly periods and a compounding rate of .0825 divided by 12, the future value of \$75,553 is \$590,091.62. Using the sinking fund formula for payments made at the beginning of the month, the monthly payment is \$591.63. The borrower

would be able to receive \$591.63 every month for the rest of her tenure in the property.

#### **5-9 DETERMINING LINE OF CREDIT PAYMENTS. [<TOP>](#)**

A. A line of credit is limited by the net principal limit for every month that the mortgage is outstanding.

B. The net principal limit for the first month is determined at closing as described in Paragraph 5-7 above.

C. The net principal limit for any subsequent month is the future value of the principal limit determined using the elapsed number of months as the term and the compounding rate described in Paragraph 5-7C. above, less any funds set aside and the outstanding balance of the loan in that month.

D. The borrower can withdraw the entire net principal limit on the first day of a mortgage. Since the outstanding balance would then equal the principal limit, the borrower would be unable to receive any additional draws, unless exception noted in Paragraph 5-9G. occurs. The borrower could still live in the house as long as he or she chose.

1) The borrower may choose to receive a lump sum up to the maximum amount at closing to satisfy an existing mortgage. This action will effectively increase the borrower's cash flow since they will no longer be obligated to make payments on the existing mortgage.

2) The borrower may choose to receive the maximum amount at closing to pay a contractor who has made repairs in exchange for a lien to be paid off at closing.

E. A minimum balance of \$50.00 must remain in the line of credit after a withdrawal in order for the borrower to receive additional draws. If less than \$50.00 remains immediately after a line of credit disbursement, then the lender may require that the entire balance be disbursed to the borrower, making the outstanding balance equal to the principal limit, and the borrower would then be unable to receive any additional draws unless and until exception noted in Paragraph 5-9G. occurs.

F. If the maximum amount is not withdrawn at closing, a borrower can make withdrawals at times and in amounts of his or her choosing as long as the withdrawal does not cause the outstanding balance to exceed the principal limit for the month in which the withdrawal is made. The available line of credit is the net principal limit for the month in which the withdrawal is made. Example: Assume the above mentioned 75 year old borrower establishes a line of credit payment plan. She finances \$2,275.50 of closing costs plus the initial MIP of \$3,034.50, and makes a withdrawal of \$5,000 at closing. In addition \$3,192.58

is set aside at closing to pay the \$25.00 per month servicing fee. Based on her initial principal limit of \$84,055.65 less the amount set aside for servicing, and an initial outstanding balance of \$10,310.00, this borrower could have withdrawn an additional \$70,553.07 at closing. If, instead, she waited until the end of the 12th month to make an additional withdrawal, her available line of credit at that time would be computed as follows. The principal limit 12 months after closing has grown to \$91,258.55. Recalculate the servicing set aside at \$3,152.41. The outstanding balance at the end of 12 months is \$11,505.09, which includes principal, interest, MIP, and servicing charges. Subtract the latter amounts from the principal limit to arrive at an available credit line of \$76,601.05.

G. Line of credit payments will usually stop when the outstanding balance equals the principal limit. An exception to this rule occurs if the adjustable note (accrual) rate becomes less than the fixed expected rate used to calculate the principal limit. In this case, even though the outstanding balance on the line of credit reached the principal limit at some point, the principal limit begins to grow more rapidly than the outstanding balance. The difference in interest rates creates an additional amount of principal limit available to the borrower. If this occurs, the borrower may again borrow funds once the principal limit is \$50.00 above the outstanding balance.

## **5-10 COMBINING A LINE OF CREDIT WITH TENURE OR TERM PAYMENTS.**

[<TOP>](#) A

borrower may combine a line of credit with tenure or term payments.

A. A line of credit can be combined with monthly payments by setting aside a portion of the principal limit for a line of credit. The net principal limit would then be used to calculate monthly payments in the usual manner.

B. The amount set aside for the line of credit becomes the initial principal limit for the line of credit. This amount will increase each month by the compounding rate.

C. The borrower can receive payments from the line of credit as long as the portion of the outstanding balance attributable to the line of credit (including accrued interest and MIP) does not exceed the principal limit for the line of credit. A lender must keep current records of the outstanding balance attributable exclusively to the line of credit.

D. The principal limit for the monthly payments plus the principal limit for the line of credit will equal the principal limit for a tenure or term payment plan without a line of credit. Example: The 75 year old borrower in the examples above may decide to set aside \$5,000 at closing for a line of credit. Assuming that she finances closing costs and the initial MIP, totalling \$5,310, and

does not use the line of credit until the 10th year, she could receive a monthly payment of \$552.48 for as long as she lived in the house, and she could make a lump sum withdrawal equal to the principal limit on the line of credit in the 10th year of \$11,377.24.

**5-11 CHANGING A PAYMENT PLAN.** [<TOP>](#) As long as the outstanding balance does not exceed the principal limit, a borrower may receive a cash advance or change from one payment plan to another, subject to the \$50.00 limit addressed in Paragraph 5-9E.

A. For a cash advance, the payment is added to the outstanding balance, and the new outstanding balance is subtracted from the current principal limit to determine the net principal limit. To accommodate the cash advance, the borrower may choose either to shorten the remaining term of the mortgage or to lower the monthly payments.

1) To shorten the term, calculate the new term using the future value of the net principal limit, the monthly payment, and compounding rate, as explained in Paragraph 5-7 of this chapter.

2) To lower the monthly payment, calculate the new payment using the future value of the net principal limit, the remaining term, and the compounding rate, as explained in Paragraph 5-7 of this chapter.

B. A new payment plan can be calculated by subtracting the outstanding balance and any funds set-aside from the principal limit to determine the net principal limit and using the net principal limit as described in Paragraphs 5-8, 5-9, or 5-10 of this chapter. Example: The 75 year old borrower in the examples above needs a cash advance of \$5,000 in the 60th month of a tenure payment plan under which she had been receiving the full \$591.63 a month. The only set-aside at closing was \$3,192.58 for servicing fees. A line of credit was not set up at origination, and she did not make any other draws. In this month, the principal limit is \$126,794.49. To calculate her new monthly tenure payment, the cash advance of \$5,000 is added to her current outstanding balance of \$53,614.41 for a total of \$58,614.41. This sum and the recomputed servicing set-aside are both subtracted from the principal limit, leaving a net principal limit of \$65,225.86. The future value for the net principal limit is then calculated for 240 months (300 months minus 60 months)--the remaining term for tenure payments. This figure is \$337,717.50 and is used to calculate a new monthly tenure payment of \$551.97. Example (cont.): If the borrower chose, she could instead withdraw an additional \$65,225.86, bringing her principal balance to the principal limit in the 60th month. She would not be able to receive any further payments.

**5-12 PARTIAL PREPAYMENTS.** [<TOP>](#) A borrower may prepay all or part of the outstanding balance at any time without penalty. However, no prepayment of an amount in excess of the outstanding balance is allowed.

A.A borrower may choose to make a partial prepayment because his or her financial circumstances have improved and he or she wishes to preserve more of the equity in the property. Any change in subsequent payments to the borrower should be made only at the borrower's request. Repayment in full will terminate the loan agreement.

B.A borrower may choose to use a partial prepayment to increase monthly payments. By reducing the outstanding balance, the borrower increases the net principal limit available for calculating monthly payments in accordance with Paragraph 5-8 of this chapter.

Example (cont.): Consider the same 75 year old borrower from the example who needed \$5,000 in cash in the 60th month of a tenure payment plan for which no line of credit had been established. The unplanned payment reduced her monthly payments from \$591.63 to \$551.97. If she were able to make a partial prepayment of \$4,550 twelve months later, she could request that her tenure payment be restored to the original amount.

C.A borrower may choose to make a partial prepayment to set up or to increase a line of credit without altering existing monthly payments. By reducing the outstanding balance, the borrower increases the net principal limit. All or part of the increase in the net principal limit may be set aside for a line of credit.

D.A borrower may choose to repay the entire outstanding balance in order to refinance the mortgage with a new reverse mortgage. If the new mortgage is a HECM, the borrower will have to pay a new initial MIP and meet other eligibility criteria. There is no "streamlined" refinancing available for HECMs.

**5-13 CALCULATIONS FOR SHARED APPRECIATION MORTGAGES.** [<TOP>](#)

A. In exchange for sharing a property's net appreciated value, if any, at the time that a mortgage is due and payable or prepaid, the borrower may receive a lower interest rate than for a comparable mortgage without shared appreciation and, consequently, would receive higher payments.

B. In exchange for bearing the risk that any losses under a mortgage will exceed the maximum claim amount, the lender receives a share of the monthly MIP and also receives a share of net appreciation, if any, at the time that a mortgage is due and payable or prepaid.

C.A lender's potential share of appreciation (the appreciation margin) is limited to 25 percent or less of the increase in a property's value over its value at origination, subject to an effective interest rate cap of 20 percent.

D.A lender's potential share of appreciation is calculated at the time that a mortgage is due and payable or prepaid in full using the outstanding balance (the principal balance plus accrued interest and insurance fees), the appraised value (the property's appraised value at origination), and sales proceeds (minus sales costs and capital improvement expenditures and excluding the amount of any liens) as follows:

1)If the outstanding balance is less than the appraised value, the appraised value is subtracted from the sales proceeds and multiplied by the appreciation margin.

2)If the outstanding balance is greater than the appraised value, but less than the sales proceeds, the outstanding balance is subtracted from the sales proceeds and multiplied by the appreciation margin.

3)If the outstanding balance exceeds the sales proceeds, there is no net appreciated value. The lender may file a claim for the excess of the outstanding balance over the sales proceeds subject to the maximum claim amount for the specific mortgage. Refer to HUD Handbook 4330.4 for claim procedures.

4)If there is no sale of the property, the current appraised value will be used instead of sales proceeds in subparts 1, 2, and 3 above.

E.A lender's actual share of appreciation is subject to an effective interest rate cap of 20 percent calculated as follows:

1)Add the interest accrued in the 12 months prior to the sale of the property or prepayment in full to the lender's potential share of appreciation calculated above.

2)Divide by the sum of the outstanding balance at the beginning of the 12 month period prior to the sale or prepayment in full and the payments to or on behalf of the borrower (but not including interest) during the 12 month period.

3)If the result is less than or equal to 20 percent, the lender receives all of the potential share of appreciation calculated above.

4)If the result is greater than 20 percent, then the lender's actual share of appreciation is 20 percent of the divisor in



subpart 2 above, including the interest accrued in the 12 months prior to sale or prepayment in full.

F.A worksheet in Appendix 19 must be completed by the lender and provided by the borrower at the time of sale or other events causing the lender's share of appreciation to come due. A copy must be maintained in the lender's records for purposes of lender monitoring.

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## **CHAPTER 6. CLOSING AND ENDORSEMENT**

**6-1 PURPOSE.** [<TOP>](#) This chapter outlines the procedures for closing and submitting a loan for endorsement. The procedures for the local HUD office to follow in endorsing a loan are also explained. Refer to HUD Handbook 4165.1 for further standard closing and endorsement procedures.

**6-2 GENERAL INSTRUCTIONS.** [<TOP>](#) HUD will not provide mortgages and notes for use with the HECM program. Mortgagees MUST use the model mortgage forms (Appendices 1 and 4), and the model note forms (Appendices 2, 3, 5, and 6), and the accompanying instructions and footnotes, with only such adaptation as may be necessary to conform to State or local requirements. Using the model mortgage and forms provided, a lender must develop or procure mortgages and notes which comply in form and substance with both this chapter and all applicable State and local requirements for a recordable and enforceable mortgage and an enforceable note. This chapter incorporates all previous mortgagee letters concerning mortgage and note forms. It may be modified by subsequent mortgagee letters. A lender must be careful to comply with the most recent instructions.

A. This chapter does not supersede HUD regulations. It supersedes anything contained in other HUD administrative issuances, such as handbooks, notices or mortgagee letters, that prescribes the form and content of a mortgage or note, and conflicts directly with these requirements. Some of the mortgage or note language required or permitted by this chapter may result in a borrower granting broad rights to a lender while the exercise of those rights is limited by HUD regulations or administrative issuances. These requirements do not supersede any such limitations on borrowers, and a borrower's rights under the mortgage and note may be exercised only in a manner consistent with all relevant HUD requirements.

B. Lenders should not seek advance approval of forms from either HUD Headquarters or local HUD offices. Lenders are responsible for determining that the mortgage and note comply with all requirements. However, questions regarding the appropriate interpretation of Sections 6-2, 6-3, 6-4, and 6-6 may be directed

to:

Department of Housing and Urban Development  
Assistant General Counsel for Home Mortgages  
Room 9258  
451 7th Street, S.W.  
Washington, DC 20410

Any requests for changes to the requirements of this chapter should be directed to the same address. HUD does not expect to grant case-by-case exceptions.

C. The term "mortgage" as used in this chapter includes any form of security instrument commonly used in a jurisdiction in connection with loans secured by residential property, such as a deed of trust or security deed. The term "note" as used in this chapter includes any form of credit instrument commonly used in a jurisdiction to evidence such loans.

D. HUD does not require that a rider be attached to a mortgage for an adjustable rate HECM. In most States, there is no clear need to record an extra rider to explain the adjustable rate features of the mortgage. The description of the note that is given on the first page of the model mortgage forms should be a sufficient description of the debt for recordation purposes, so lenders should use the model mortgage forms with no special adaptation for adjustable rate loans, if such mortgages would be fully enforceable under State or local law. However, HUD does allow the lender to add language to reflect the adjustable rate nature of the mortgage, if necessary to comply with State or local law. One or more of the following adaptations may be made to the form:

1) Change the title to "Adjustable Rate Home Equity Conversion Mortgage."

2) Change the first use of the word "note" to "adjustable rate note."

3) Change the first use of the word "interest" on the first page to "interest at a rate subject to adjustment (interest)."

4) Add additional language, either to Paragraph 1, or as an additional numbered paragraph at the end of the mortgage, which references, describes or summarizes the adjustable rate feature of the note to the extent required by the lender, or by State or local law.

**6-3 FORMAT.** [<TOP>](#) A mortgage, note, and loan agreement may include the lender's business name and/or logotype at the top of the form. Although layout and format are within the discretion of lenders where not specified in this chapter; size, style, typeface and print should be similar to the

mortgages and notes approved by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC). The Department recommends that lenders include the last revision date on each form in order to clarify the versions being distributed.

**6-4 STATE LAWS.** [<TOP>](#) The mortgage instructions and the note footnotes in Appendices 1-6 identify a number of specific adaptations of the model forms that are needed to comply with State laws. Other State laws may require further adaptation. Lenders aware of such laws should bring them to the Department's attention so that the requirements may be updated or the local HUD office may issue a Circular Letter reflecting additional State law requirements. The validity and enforceability of the mortgage and note will depend on compliance with State law even if such law is not reflected in this handbook. For this reason, HUD emphasizes the need for a lender to use mortgages and notes that are in compliance with State law.

**6-5 LOCAL HUD OFFICE AUTHORITY.** [<TOP>](#) Local HUD offices have authority to impose additional requirements regarding mortgage and note provisions for consistency with State laws appropriate to their jurisdictions, and to advise lenders of any such requirements through a Circular Letter.

**6-6 PREPARATION OF SECURITY INSTRUMENTS.** [<TOP>](#) The lender must prepare the following legal instruments (see appendices at the end of this Handbook for mandatory model forms), as needed for a particular case:

A. Mortgage and note. The lender must provide a copy of the first mortgage and the appropriate first note (fixed or adjustable rate) for review by the borrower during the application process (see Paragraph 4-7), but not later than when the borrower signs the URLA.

B. Second mortgage and note. The lender must complete a second mortgage and second note (fixed or adjustable rate) to secure any payments made by HUD to the borrower. A copy of the second mortgage and second note need not be provided for review by the borrower during the application process, however, their relationship to the first mortgage and first note should be fully explained. The second mortgage and second note secure any mortgage payments which might be made by HUD to the borrower in the event that the lender fails to make the payments under the loan Agreement.

HUD policy does not require a maximum mortgage amount to be stated in the mortgage. Where State law requires the mortgage to reflect a maximum mortgage amount, the lender must use an amount that is equal to 150% of the maximum claim amount. This amount is required because the loan payments are secured not only by the current value of the house but also by any possible appreciation

in value. This amount is intended to protect the borrower in the later years of the mortgage. When a maximum mortgage amount is stated in the mortgage, the lender is not secured for payments to the borrower beyond the stated amount. If the mortgage balance reaches the maximum mortgage amount, payments to the borrower would cease or the borrower would have to try to extend the mortgage which may not be possible if the property value has declined or if other liens were placed on the property. Both of these risks are greatly reduced when the maximum mortgage amount is a higher amount.

C. Loan Agreement. A copy of the Loan Agreement (Appendix 7) must be provided for review by the borrower during the application process. Three copies of the Loan Agreement must be executed at closing by the borrower and the lender. The copies of the agreement will be signed by HUD when the mortgage is endorsed for insurance. This agreement outlines the process of disbursing the mortgage proceeds, the obligations and rights of the lender, and the rights and limitations on the borrower. A Repair Rider (Appendix 8), containing provisions covering the completion of any required repairs, must accompany the agreement, if applicable.

D. Shared Appreciation Rider and Allonge. If the mortgage provides for shared appreciation, the lender must use the Shared Appreciation Rider (Appendix 11) and the Shared Appreciation Allonge (Appendix 12).

E. Condominium or Planned Unit Development (PUD). If the mortgage to be insured is on a condominium or a home in a PUD, the appropriate mortgage rider must be used (Appendices 9 and 10, respectively).

The lender is advised to seek counsel's opinions to assure that State law has been considered, and that any necessary changes to the model instruments are made. The model instruments may require modification to comply with State laws.

**6-7 BORROWERS LACKING LEGAL COMPETENCY.** <TOP> Power of attorney (durable or otherwise) may be used for closing documents. Any power of attorney must comply with State law and allow for the Note to be legally enforced in that jurisdiction (see Paragraph 4-6).

**6-8 LOAN CLOSING DATE.** <TOP> The Loan Closing Date for all HECMs is defined as the date on which the borrower SIGNS the Note. THIS DATE MUST APPEAR, AND BE IDENTIFIED, AS THE "LOAN CLOSING DATE" IN BLOCK I. ON PAGE 1 OF THE FORM HUD-1 SETTLEMENT STATEMENT.

A. Regulation Z (12 CFR 226.15) provides the borrower with a right of rescission for three business days after loan closing. Lenders are prohibited from charging interest on funds held

available for the borrower during the three day rescission period. Interest must begin to accrue on the day after the disbursement is made.

B. In order to ensure an accurate accounting of interest accrual, the DISBURSEMENT DATE (the date on which the lender relinquishes control of the funds) MUST ALSO APPEAR, AND BE IDENTIFIED AS, THE "DISBURSEMENT DATE" IN BLOCK I. ON PAGE 1 OF THE FORM HUD-1 SETTLEMENT STATEMENT.

For example, if (1) the borrower signs the Note on August 5, 1993, (2) the rescission period expires on August 9, 1993, (3) disbursement of funds takes place on August 10, 1993, and (4) interest begins to accrue on August 11, 1993, the following information should appear in BLOCK I. of the FORM HUD-1 for ALL HECM LOANS:

I.SETTLEMENT DATE:

|                   |                 |
|-------------------|-----------------|
| LOAN CLOSING DATE | AUGUST 5, 1993  |
| DISBURSEMENT DATE | AUGUST 10, 1993 |

C. Since lenders must use the appropriate indices in effect on the date of loan closing when setting the mortgage interest rate and the expected average mortgage interest rate for adjustable rate HECM loans, lenders originating HECMs in escrow closing states must arrange to have the borrower sign the Note while the same interest rates are in effect as when the mortgage documents are drawn.

D. Weekly average yields are published in the Federal Reserve Bulletin and are made available by the Federal Reserve Board in Statistical Release H.15(519). This Release is published weekly on Monday, or on Tuesday if Monday is a Federal holiday, and the index shown on that release is effective the day it is issued until the H.15(519) is issued the next week. Statistical Release H.15(519) is often not released until mid- or late-afternoon on Monday. Consequently, lenders closing HECM loans on Monday should use the index from the Statistical Release issued the previous Monday (one week earlier), and lenders closing HECM loans on Tuesday should use the index from the Statistical Release issued the day before closing.

E. For purposes of MIP remittance (see Chapter 7) to Computer Data Systems, Inc. (CDSI), lenders must use the "LOAN CLOSING DATE" from BLOCK I. of the FORM HUD-1 to complete the CDSI "CLOSE DATE" field, and must continue to use the "DISBURSEMENT DATE" in the CDSI "FUND DATE" field on the LOAN SET-UP screen.

**6-9 REQUIREMENTS FOR CLOSING.** [<TOP>](#) At or before closing, the following must be

accomplished:

A. During the application process, in order to provide the borrower with an estimate of his or her principal limit and to allow the local HUD office to verify that the correct indices are being used, the lender should use the indices in effect at the time the application is signed. The lender MUST recalculate the principal limit at closing using the indices in effect on the day of closing.

B. On the day of closing, the lender must determine the principal limit, expected rate, mortgage interest (accrual) rate, and the margin (if applicable). The expected rate is needed to calculate the principal limit and payment plan for all borrowers, and is also the accrual rate for fixed rate HECMs. The mortgage interest rate is needed to calculate the first year accrual rate for adjustable rate HECMs. The lender MUST use the indices in effect on the date of closing.

For adjustable rate mortgages, HUD does not require that the lender round either the expected rate or the ARM note rate. Therefore, the lender may round both rates, only one rate, or none of the rates. However if the lender chooses to round either rate, the rate must be rounded to the nearest one-eighth (1/8) of a percentage point (i.e. the nearest 1/8th either up or down) and must be rounded throughout the life of the loan. Whether or not a lender decides to round the rates may depend on the preference of the secondary market investor. Lenders should check with their investors to determine if rounding will be required. If the mortgage interest rate is rounded, the lender should refer to the footnotes of Appendices 3 and 6 for instructions on appropriate changes to the First and Second Adjustable Rate Notes.

C. The ten-year Treasury rate is the index which must be used to establish the expected rate, and the one-year Treasury rate is the index which must be used to establish the mortgage interest (accrual) rate for adjustable rate HECMs. Both indices are published in the Federal Reserve Bulletin and are made available by the Federal Reserve Board in Statistical Release H.15(519). This is a national index, which can be obtained from the Federal Reserve Board, by requesting to be placed on the mailing list for receipt of the weekly H.15 publication. The address is:

Publications Services  
Mail Stop 138  
Board of Governors  
Federal Reserve System  
Washington, DC 20551

D. If the mortgage interest rate (or the index for ARMs) has increased by more than one percent or the margin has increased at all since the Firm Commitment was issued, the commitment must be

reprocessed before the loan can close. The lender is also required to provide the borrower with a new ARM Disclosure Statement indicating the new rate.

E. On ARMs, the lender must use the one-year Treasury rate (to establish the initial mortgage interest rate) and the ten-year Treasury rate (to establish the expected rate) from the same day.

F. The borrower must choose his or her initial payment plan, which identifies the method by which he or she wishes to receive the mortgage proceeds.

1)The lender should encourage the borrower to establish a line of credit along with monthly payments, if he or she has not done so, to avoid incurring unnecessary costs and inconvenience when unexpected expenses occur.

2)At closing, the borrower will receive the payment plan (Appendix 13) that he or she has selected.

3)The borrower must sign the plan, indicating that he or she has chosen the options contained on the plan.

4)Whenever the borrower changes a payment option or has his or her payments recalculated, the borrower will receive a payment plan, and will be required to sign the plan.

G. The lender must prepare the HUD-1 Settlement Statement (or other similar statement approved by HUD) at least one business day before closing. The borrower must be allowed to inspect the statement one business day before closing. As part of HUD's ongoing effort to strengthen quality control procedures, HECM lenders are required to obtain certifications to the HUD-1 Settlement Statement from the borrower(s) and settlement agent. The borrower(s) and settlement agent in a HECM transaction must sign the applicable certifications below, which must be printed at the bottom of the HUD-1, or attached to the HUD-1 as an addendum:

I have carefully reviewed the HUD-1 Settlement Statement, and to the best of my knowledge and belief, it is a true and accurate statement of all receipts and disbursements made on my account or by me in this transaction. I further certify that I have received a copy of the HUD-1 Settlement Statement.

\_\_\_\_\_  
\_\_\_\_\_  
Borrower(s)                      Date

To the best of my knowledge, the HUD-1 Settlement Statement which I have prepared is a true and accurate account of the funds which were received, and have been or will be disbursed, by the

undersigned as part of the settlement of this transaction.

\_\_\_\_\_  
Settlement Agent          Date

WARNING: It is a crime to knowingly make false statements to the United States on this or any other similar form. Penalties upon conviction can include a fine and imprisonment. For details see Title 18 U.S. Code Section 1001 and Section 1010.

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**6-10 POST-CLOSING RESPONSIBILITIES.** [<TOP>](#) After closing, the lender must:

A. Record the first and second mortgages.

1)The lender is responsible for ensuring that the first and second mortgages are the first and second liens of record, and that other liens do not intervene between the first and second mortgage.

2)The second mortgage is not subject to any State or local recording taxes, or stamp taxes, because the second mortgage is a mortgage to the Federal Government. Taxation of the property of the Federal government violates the supremacy clause of the U.S. Constitution.

However, fees are distinguished from taxes. Recording fees, which are a charge for a service, may be imposed by the local recording office. Customary and reasonable fees to record the second mortgage may be collected from the borrower by the mortgagee.

B. Submit the original second mortgage, along with any riders, to the local HUD office after recording. The lender should submit the original second mortgage to HUD with the closing package if recording has been completed by that time. Otherwise, the lender should submit the document to HUD immediately after recording. If local recording office will be submitting the second mortgage, they should be fully instructed with respect to the correct address for the appropriate local HUD office to which the second mortgage should be sent.

**6-11 REQUIRED DOCUMENTS FOR ENDORSEMENT.** [<TOP>](#) The following documents must be submitted by the lender to the local HUD Office for endorsement:

A. Mortgagee's Certification. To facilitate endorsement, the lender must certify that the mortgage has been closed in accordance with all HUD requirements. The following closing certification must



be executed (signature, title, and date) by an officer or authorized signatory of the company:

"We (name of company), Mortgagee at the time of closing of this mortgage loan, certify that we have reviewed the outstanding commitments, legal instruments, closing statements and other documents of mortgage loan closing. Our review indicates that the mortgage loan has been closed in accordance with the statutory and regulatory requirements of the National Housing Act and HUD and that the terms of the outstanding commitments have been satisfied to the best of our knowledge and belief"

B. Certified true copy of the signed first mortgage and first note. The lender must ensure the accuracy of the information on the instruments and that they were completed as prescribed by Appendices 1, and 2 or 3, along with appropriate allonges and riders.

C. Original or certified true copy of the signed second mortgage and original second note to be held by HUD. The lender must ensure the accuracy of the information on the instruments and that they were completed as prescribed by Appendices 4, and 5 or 6, along with appropriate allonges and riders.

D. Original Loan Agreements. Three original Loan Agreements (Appendix 7) signed by the borrower and the lender must be included. The authority to sign the Loan Agreement has been delegated to the Director of the Single Family Housing Division of a local HUD office. They may, in turn, re-delegate this authority to subordinate employees of the Department.

E. Copy of the Borrower's Initial Payment Plan. The lender must submit a copy of the borrower's initial payment plan signed by the borrower (Appendix 13).

F. MIP Statement of Account (SOA). The lender must submit the SOA to confirm payment of the MIP.

G. HUD-1 Settlement Statement. A HUD-1 Settlement Statement, or other similar statement approved by HUD, and the Addendum to the HUD-1 containing borrower and settlement agent certifications must be completed at closing, and copies of these documents must be submitted. For appropriate HUD-1 Settlement Statement and closing certifications, see Paragraph 69G. above.

H. Evidence of Hazard Insurance Policy. The lender must provide evidence of a hazard insurance policy equal to the value of insurable property improvements at closing, obtained by either the borrower or the lender.

I. Title Insurance Policy. The lender must provide evidence of a

title insurance policy at least equal to the maximum claim amount. The title insurance policy must show that:

1)The borrower owns the property in fee simple or on a leasehold under a renewable lease for not less than 99 years or under a lease having 50 years beyond the youngest borrower's 100th birthday, and

2)That the mortgage will be a first lien of record when recorded.

Many State laws require that a maximum mortgage amount be stated in the mortgage or deed of trust, and consequently the amount recorded will be equal to 150% of the maximum claim amount, rather than the property value or the maximum mortgage amount under Section 203(b) of the National Housing Act. Notwithstanding this larger amount for the purpose of recordation, the title insurance policy obtained should be equal to the maximum claim amount, NOT 150% of that amount.

In order to avoid incurring unnecessary expenses, lenders must review borrower eligibility requirements (age, Federal credit record, principal residence) before ordering a title insurance commitment to be paid for by the borrower.

J. Choice of Insurance Options. The mortgagee should indicate in writing its choice of the assignment or shared premium insurance options.

K. Copy of the Notice of the Right of Rescission. This notice must be given to the borrower at closing according to Regulation Z requirements (12 CFR 226.15). This notice informs the borrower of his or her right to rescind the contract within three (3) days of loan closing. The notice must be signed and dated by the borrower to indicate receipt date.

M. Proof of Compliance with Conditions on Firm or Conditional Commitments. The lender must submit proof that the borrower has satisfied any conditions which were placed on his or her approval, including proof of payment of any delinquent Federal debts.

**6-12 REVIEW OF THE CLOSING DOCUMENTS.** [<TOP>](#) HUD review of the closing package will comprise the following:

A. Lender's Certification. Verify that the lender's certification meets the requirements as stated in Paragraph 6-11A., above.

B. Certified true copy of the signed first mortgage and first note.

1)Verify that the information on the instruments is accurate and that they include the uniform covenants prescribed by

Appendices 1, and 2 or 3.

2) Verify that the mortgage interest rate is no more than one point higher than the rate disclosed for processing the Firm Commitment (increases of more than one point require reprocessing of the commitment) and that the margin has not increased at all since the Firm Commitment was issued (any increases require reprocessing of the commitment).

3) Verify that appropriate riders and allonges have been included.

C. Original or certified true copy of the signed second mortgage and original second note to be held by HUD. Verify that information in the instruments is accurate and that they were completed in the manner prescribed by Appendices 4 and, 5 or 6. The same riders and allonges accompanying the first mortgage and note must also be included.

D. Original Loan Agreements. Ensure that three Loan Agreements are completed and that they adhere to the sample format in Appendix 7.

E. Copy of the Borrower's Initial Payment Plan.

1) The Mortgage Credit Examiner should review the plan using the HECM software to ensure that the payments were calculated correctly, and that the borrower signed the plan.

2) The examiner must ensure that the expected rate is either equal to the mortgage interest rate (for a fixed rate mortgage) or equal to the ten year Treasury rate plus the margin (if applicable). For an ARM, the examiner must ensure that the one-year Treasury rate and the ten-year Treasury rate were released on the same day, and that the loan closing took place while those rates were in effect.

F. Initial MIP Statement of Account. Verify payment of the initial MIP by the Statement of Account submitted by the lender.

G. HUD-1 Settlement Statement. Review the HUD-1, or other similar statement approved by HUD, to ensure that all charges are allowable.

H. Evidence of Hazard Insurance Policy. Verify evidence of a hazard insurance policy equal to the value of insurable property improvements.

I. Evidence of Title Insurance Policy. Verify evidence of a title insurance policy at least equal to the maximum claim amount. The title insurance policy must show that the borrower owns the property in fee simple or on a leasehold as described in Paragraph 6-11I., and that the mortgage will be a first lien of

record when recorded.

J. Choice of Insurance Options. The lender must select the assignment or shared premium insurance options.

K. Copy of the Notice of the Right of Rescission. Verify evidence of the borrower's receipt of this notice at closing, as required by Regulation Z (12 CFR 226.15). The notice must give the borrower three (3) days to rescind on the contract and must be included. The notice must be signed and dated by the borrower to indicate receipt date.

M. Proof of Compliance with Conditions on Firm and Conditional Commitments. Verify that the borrower has complied with any conditions on his or her approval, including proof of payment of any delinquent Federal debts.

**6-13 THIRD-PARTY FEES.** [<TOP>](#) In addition to the following list of fees and charges, the local HUD Office may authorize or reject any other charge, or the amount of any charge, based on what is reasonable and customary in the area.

A. Appraisal Fee and Inspection Fee. The borrower may pay HUD's established maximum fee, or the actual cost of the service, whichever is less.

B. Credit Report. The borrower may pay the actual cost for a merged in-file report, containing the information currently available from three consumer credit information repositories.

C. Deposit Verification Charge. The borrower may pay the actual charge imposed by the depository institution.

D. Document Preparation Fee. The borrower may pay a document preparation fee if this service is performed by a third-party who is not controlled by the mortgagee. The mortgagee may not charge a fee if it performs this service itself.

E. Property Survey. The borrower may pay if a survey is required by the lender, although a survey is not required by HUD.

F. Title Examination and Title Insurance Policy. A title insurance policy equal to the maximum claim amount must be submitted in the closing package, and the borrower may pay for these items.

G. Attorney's Fees. The borrower may pay only if the attorney is not an employee of the mortgagee, or is not an attorney who routinely receives referrals from a particular mortgagee AND issues the title insurance. If an attorney who is not an employee of the mortgagee is routinely used on referral from the mortgagee to close loans and issue title insurance, the borrower may only be charged a notary fee.

H. Settlement Fees. The borrower may pay only if the closing agent is not an employee of the mortgagee. A fee may be charged if the settlement agent is an independent company or a subsidiary of the mortgagee that regularly closes loans for several different mortgagees.

I. Mortgage Broker's Fees. The borrower may pay only if the broker is engaged independently by the mortgagor. A broker's fee is prohibited if there is any financial interest between the broker and the mortgagee. The broker agreement must be submitted with the mortgage insurance application.

J. Tax Service Fee. The borrower may NOT pay a tax service fee in order for the mortgage loan servicer to check the tax rolls in each county where loans are recorded.

K. Recording Fees and Taxes. The borrower may pay recording fees on the first and second mortgages that are customary or required in the area, and recording taxes on the first mortgage that are required. The second mortgage is not subject to any State or local recording taxes, or stamp taxes, because the second mortgage is a mortgage to the Federal government.

L. Tests or Treatments. The borrower may pay for tests or treatments required by HUD such as tests of water supplies, soil percolation tests for individual septic systems, or testing for or treating insect infestation.

M. Courier Fees. The borrower may pay a courier fee for delivery of a mortgage payoff to a lien holder and for closing documents to and from the settlement agent. If this arrangement will take place, a written agreement between the borrower and the lender must be executed before loan closing.

**6-14 ENDORSEMENT.** [<TOP>](#) The local HUD Office should issue a HUD Form 59100, Mortgage Insurance Certificate (MIC), on CHUMS after determining the acceptability of the closing submission by the lender.

A. Loans submitted for endorsement will be entered into CHUMS using the Endorsement Processing Screen.

B. The local HUD Office will verify the presence of the necessary documents listed in Paragraph 6-11.

C. Besides borrower and property information, the MIC will contain information on the ADP code, amortization plan (fixed or ARM), program I.D., borrower type, living units, interest rate, margin, cap (2/5 or lifetime), endorsement date and maximum claim amount.

**6-15 NON-ENDORSEMENT.** [<TOP>](#) If the local HUD Office determines that endorsement is not possible and that the impediments to endorsement cannot be corrected, the local HUD Office must return

the original Loan Agreements to the borrower and the lender. The lender must inform the borrower that HUD cannot legally assume any responsibility for ensuring that the lender makes the payments required by the loan agreement.

**6-16 POST-ENDORSEMENT RESPONSIBILITIES.** [<TOP>](#) After endorsement, the local HUD Office must:

A. Sign the Loan Agreements (see Paragraph 6-12D.) and send one original to the lender, one original to the borrower, and retain one original.

B. Send a signed Notice to the Borrower (Appendix 14) to the borrower, which explains the procedures to follow if the mortgagee fails to make the required payments to the borrower.

C. Ensure that the lender has submitted the original second mortgage and riders after closing, and retain the original second mortgage, note and any riders and allonges. The Loan Management Branch of the local HUD Office will be responsible for retaining these documents.

**6-17 MAINTENANCE OF THE CASE BINDER.** [<TOP>](#)

A. During the insurance demonstration. After endorsement, the local HUD Office should transfer the case binder via pouch mail to Headquarters at the following address:

U.S. Department of Housing and Urban Development  
Office of Economic Affairs  
Room 8218  
451 Seventh Street, S.W.  
Washington, D.C. 20410

B. Following the insurance demonstration. As soon as possible after insurance endorsement, the local HUD Office will box and ship the insured case binders to Headquarters in accordance with the instructions in Chapter 3 of HUD Handbook 2226.1.

## **CHAPTER 7. PAYMENT OF MORTGAGE INSURANCE PREMIUMS** [<TOP>](#)

**7-1 PURPOSE.** [<TOP>](#) This chapter explains the procedures for the loan servicer to follow in remitting and accounting for the necessary mortgage insurance premiums (MIP). The following procedures apply to the servicer of record, which may also be the holder of the mortgage, but may be a loan-servicer designated by the holder. HUD will maintain a record of both parties but will allow only one servicer to perform the remittance procedures. The MIP remittance procedures will involve the use of an interactive automated system that the loan-servicer will

access with a personal computer. The system will allow for the collection of information concerning the mortgage such as disbursements, payments, and loan balance, in addition to the payment of MIP.

**7-2 PROCESSING REQUIREMENTS.** [<TOP>](#) HUD will utilize an agent to collect the initial and monthly MIP, and any necessary mortgage information. The information collection will be accomplished by electronic transmission and the MIP will be collected by means of a Pre-Authorized Debit (PAD) from the lender's bank.

A. The lender must obtain a personal computer (PC), printer, modem, and telecommunication software which are compatible with the agent's equipment.

1)The equipment will be used to authorize payment of the MIP and transmit information about the mortgage.

2)The agent will provide each lender and loan-servicer with complete instructions for gaining access to the system, and for use of the MIP collection and accounting system.

B.MIP payments will be made through Automated Clearing House (ACH) debit transactions, from one account per lender, based on data transmitted from the lender's computer.

C. In order to establish an PAD account and authorize HUD to debit the account, the lender must follow the instructions in Appendix 23.

**7-3 TYPES OF MORTGAGE INSURANCE PREMIUMS.** [<TOP>](#) The MIP will be paid in two different forms:

A. Initial MIP. At closing, the lender must remit a non-refundable premium equal to two percent (2%) of the maximum claim amount. HUD cannot endorse the mortgage if this premium is not paid.

B. Monthly MIP. Every month for the life of the mortgage, the lender must remit a premium equal to one-twelfth (1/12) of the annual rate of one-half of one percent (.5%) of the outstanding balance.

The lender will add these payments to the borrower's outstanding balance when the payments are made to HUD. The borrower, however, may choose to pay the initial MIP in cash.

**7-4 INITIAL MORTGAGE INSURANCE PREMIUM.** [<TOP>](#)

A. After closing, the lender will remit the required premium (2% of the maximum claim amount) and add the amount to the borrower's outstanding balance, if it was not paid by the borrower in cash.

1)When the automated MIP collection and accounting system is accessed, the lender must enter information on the displayed screen concerning the characteristics of the mortgage at closing, including information about the borrower's payment plan.

2)The initial MIP required for endorsement will be displayed on the screen after the loan information is entered. The lender will approve the ACH transaction to withdraw the displayed amount when the information is transmitted.

B. Using the information transmitted by the lender, the agent will complete the ACH debit transaction, withdrawing the required amount from the lender's account.

C. The ACH withdrawal will take place the first bank business day following the day that the information was transmitted. This date is the received date, and will be the basis for determining the timeliness of the payment.

D. The lender should keep a printout of each transaction as a permanent record.

E. The lender must ensure that the information transmitted is accurate. Errors in transmission will delay endorsement and establish an incorrect account.

F.A verification of payment of the initial MIP will be available on CHUMS.

**7-5 INFORMATION COLLECTION.** [<TOP>](#) The agent will maintain a record of both endorsed cases, and those cases which are pending endorsement.

A. The initial information on record will be obtained from CHUMS, when the initial MIP is remitted. Information will also be obtained whenever changes in the payment plan occur. Information can be entered or corrected daily.

B. Any information transmitted by the lender will be edited for errors in the following data:

- 1) Ten digit mortgagee identification number (verify approval).
- 2) Ten digit FHA case number (verify as a HECM case).
- 3)Closing date (verify that it is earlier than MIP payment date).

This information will be edited before transmission by the lender. The transaction will be placed in a suspense file and will require correction before the mortgage can be endorsed.



C. To prevent the possibility of incurring a late charge because of a rejected transaction, the lender should enter the case data as soon as possible after closing to allow time to make any necessary corrections.

**7-6 STATEMENT OF ACCOUNT.** [<TOP>](#) After receipt of the initial MIP, the HUD agent will send the lender a Statement of Account (SOA).

A. The statement will include information relevant to the endorsement of the mortgage, e.g. FHA case number, closing date (see Paragraph 6-8), borrower name and property address, in addition to information concerning the MIP transaction, e.g. the amount of initial MIP remitted, the maximum claim amount, the age of the youngest borrower, the initial mortgage interest rate and the principal limit.

B. If the payment is on time and the information is verified by the programmed edits, a statement indicating the maximum claim amount that may be insured and stating "MIP PAID ENDORSE LOAN" will be sent to the lender.

C. The lender must include the statement in the closing package sent to the local HUD Office (see Paragraph 611F.).

**7-7 MONTHLY MORTGAGE INSURANCE PREMIUM.** [<TOP>](#) All HECM loans are insured

retroactively from the date of closing, so the monthly mortgage insurance premium will begin to accrue on the outstanding balance from the day after the expiration of the three-day rescission period. Any delays in endorsing the mortgage will not relieve the lender of MIP remittance requirements. The monthly MIP is remitted to HUD using the same procedures as with the initial MIP. The lender must use the same PAD account for the monthly transactions. The lender can only use this method for remitting the MIP for reverse mortgages. If a mortgage is rejected for insurance, a refund of any premium paid will be processed by the Department.

A. Calculating the monthly MIP payment. The payment will be calculated based on the daily outstanding balance of the loan. An annual rate of .5% of the outstanding balance will be applied to the daily outstanding balance to determine the correct payment.

1)Assignment Insurance Option. If the lender has chosen this option at closing, it must remit 1/12 of the annual rate each month.

2)Shared Premium Insurance Option. If the lender has chosen this option at closing, it will retain a percentage of the monthly amount. The percentages are listed in the factor table of Appendix 20.

B. Monthly Information Collection. Each month, the lender should enter information on the mortgage, if necessary, including any unscheduled payments, and the required MIP will be calculated based on this information. The following information must be entered as it becomes available, or by the last day of the month:

- 1) Recalculations of the borrower's monthly payments.
- 2) Unscheduled payments to the borrower, including payments from a line of credit, and dates that the payments were made.
- 3) Payments made on behalf of the borrower, including payments for taxes and insurance, and dates that the payments were made.
- 4) Any prepayment of the outstanding principal balance, and the dates that the payments were made.
- 5) Changes to the interest rate on the regular change date.

C. Servicer and Holder Changes. Any changes in the holder or servicer of the mortgage must be reported as soon as they are made. The selling lender will notify HUD of these changes through the automated system and by submitting Form HUD 92080 to the Insurance Operations Division in HUD Headquarters. The acquiring lender must establish a PAD account with HUD if it is not already servicing reverse mortgages (see Appendix 23).

D. Remitting the MIP.

- 1) The MIP is due on the first business day of the month, but must be received by the tenth day of the month to avoid a late charge.
- 2) The lender must be sure to enter information about each month's mortgage activity by the end of the last business day of the month.
- 3) Notice of the monthly MIP due will be available on the automated system on the first of the month, in order that the lender may place sufficient funds in the PAD account before the account is debited.
- 4) The automated system will automatically debit the lender's ACH account before the tenth of the month for the correct MIP amount.

E. The amount of any monthly MIP payments are added to the borrower's outstanding balance when the lender makes the payments to HUD.

F. The lender will have the capability of reviewing the complete history of each mortgage for reconciliation purposes.

**7-8 LATE CHARGES.** [<TOP>](#) A late charge equal to 4 percent of the initial or monthly MIP remitted will be assessed whenever payment of the MIP is not received in full on the required date. The correct information must have been transmitted and the ACH transaction must have occurred for the payment to be considered received in full.

A. Initial MIP. Payments received more than 15 calendar days after the closing date will be subject to late charges. Non-payment of a late charge will result in delaying endorsement.

B. Monthly MIP. Payments received after the tenth of the month will be subject to late charges.

The lender must ensure that payment is made earlier if the required dates fall on holidays or weekends.

The automated system will compute the late charge due and will not allow the lender to remit the MIP without including the late charge. The lender can not add the amount of any late charge to the borrower's outstanding balance.

**7-9 INTEREST CHARGES.** [<TOP>](#) Interest will be charged on all late payments at a percentage rate set in accordance with the Treasury Fiscal Requirements Manual.

A. Initial MIP. Interest will be assessed on payments received more than 30 days after closing. The interest charge on the unpaid initial fee is calculated on a daily basis from the closing date until the payment is received in full.

B. Monthly MIP. Interest will be assessed on payments received more than thirty days after the due date.

Interest will be computed on the amount of the late payment, exclusive of the late charge. The automated system will compute the required interest and will not allow the lender to remit any MIP payments without including the interest. Non-payment of the interest on the initial MIP will result in delaying endorsement.

**7-10 DELINQUENCY NOTICES.** [<TOP>](#) First notices for MIP, late charges and interest will be sent to the lender and HUD as they become due. The notice will show the amount due for each month. The agent will keep a cumulative listing of MIP, late charges and interest due and provide a monthly report to HUD showing balances due.

**7-11 APPEALING LATE CHARGES AND INTEREST.** [<TOP>](#) The lender may submit a written request to the agent appealing a paid late charge or interest payment.

A. The agent will forward appeals to HUD's Insurance Operations Division for disposition. HUD retains the exclusive rights to waive these charges.

B. The result of the appeal will either be a refund of the payments or a denial of the appeal.

**7-12 ACCESS TO MORTGAGE INFORMATION.** [<TOP>](#) The agent will maintain endorsement records of all reverse mortgages.

A. The lender will have access to the system records for loans under its mortgagee identification number. The lender will be able to correct certain information on these records throughout the life of the loan.

B. The agent will periodically send to each lender a listing of cases that have not been insured. The lender is required to give a current status on each case.

**7-13 REFUNDS.** [<TOP>](#) The MIP may be refunded under certain circumstances.

A. Circumstances requiring a refund:

- 1) The lender remitted too much money.
- 2) The mortgage was never endorsed, AND is not eligible for endorsement.
- 3) An appeal of late charges and/or interest was approved.
- 4) An erroneous closing date was entered and later corrected.

In the absence of at least one of these sets of circumstances, no portion of the initial MIP may be refunded, notwithstanding the fact that the loan may be paid off in a relatively short period of time.

B. The lender must submit a request for a refund to the agent, stating the amount of refund requested, the reason for the request and to whom the refund is to be paid. This request may be accomplished through the message facility of the automated system.

C. The agent will forward requests for refunds to HUD's Insurance Operations Division for disposition. HUD retains the exclusive rights to approve refunds.

D. If the refund is approved, the agent will credit the lender's PAD account with the amount of the refund or a Treasury check will be issued, depending on:

- 1) the recipient of the check, and

2) the amount.

**7-14 TERMINATION OF INSURANCE CONTRACT. [<TOP>](#)**

A. Termination of the insurance contract will occur upon receipt of notification from the servicing lender of the following circumstances:

- 1) The mortgage is paid in full.
- 2) A third party sale, foreclosure, or a deed in lieu of foreclosure, and the lender will not file a claim.
- 3) Voluntary termination jointly requested by the lender and borrower and approved by HUD.

In these cases, the MIP must be collected to the date preceding the event terminating the contract of insurance.

If the lender fails to make payments to the borrower as required, resulting in HUD making payments under the second mortgage, MIP must be collected through the date the insurance automatically terminates under the regulations (within 30 days of HUD's demand for reimbursement, if the lender does not reimburse or assign). HUD may later reinstate the insurance with reimbursement by the lender of all payments made by HUD, interest, and any back MIP and penalties.

B. The lender must notify the agent within fifteen days of the circumstances described in Sections 1 and 2 of Part A of this paragraph through the automated system and by submitting Form HUD 27050-A if no claim is filed.

C. Any MIP due will be calculated and collected at the next regular monthly remittance.

D. The agent will send a written confirmation of the termination to the lender after assignment.

E. Reinstatement of an insurance contract that was terminated in error must be requested in writing to the agent. Upon reinstatement, any back MIP, late charges and interest will be due, if the termination was not HUD's error.

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## **CHAPTER 8. ASSIGNMENTS**

**8-1 PURPOSE.** [<TOP>](#) This chapter explains the procedures for the lender to follow in assigning a mortgage to HUD. Procedures for processing

demand assignments by the local HUD Office are also included. Refer to HUD Handbook 4330.1 for standard assignment procedures. This chapter supersedes that handbook only as noted below.

**8-2 ASSIGNMENT INSURANCE OPTION.** [<TOP>](#) If the lender has chosen the assignment

insurance option at closing,

A. The mortgage may be assigned to HUD if:

1)The outstanding balance, including all payments made to or on behalf of the borrower, MIP and accrued interest, is equal to or greater than 98% of the maximum claim amount as reflected on Form HUD 59100, Mortgage Insurance Certificate, or

2)The borrower has requested a payment, either from a line of credit or from a change in the payment plan, which, when added to the outstanding balance, would equal or exceed 98% of the maximum claim amount.

B. If the lender chooses to assign the mortgage to HUD, the following conditions must be met:

1)The lender must be current in making the required payments to the borrower, and

2)The lender must be current in making payments of MIP (including interest and late charges if any) and must continue making monthly payments until the assignment is recorded, and

3) The mortgage cannot be due and payable due to:

a. The death of the borrower (with no surviving borrower maintaining the property as a principal residence), or

b. The borrower has sold the property (conveyed title) and no other borrower retains title in fee simple, under a lease for not less than 99 years which is renewable or under a lease having a remaining term of 50 years beyond the 100th birthday of the youngest borrower.

4)The lender has not notified the local HUD Office of any event that might cause the mortgage to be due and payable. See HUD Handbook 4330.1.

5)The lender's request to declare the mortgage due and payable has not been denied by the local HUD Office.

C. When the lender notifies HUD of its intention to assign the mortgage, it must provide the borrower with a notice informing the borrower that the mortgage will be assigned to HUD and,

1) Provide to the borrower an anticipated date of assignment and instruct the borrower to make any request for unscheduled or line of credit payments after that date to HUD;

2) State that HUD will continue to withhold an amount from the payments to the borrower in order to pay for taxes, if the lender had been making these payments;

3) State that HUD will not withhold for payments for hazard insurance and that the borrower must maintain the insurance. The lender must disburse to the borrower any funds withheld, but not spent on hazard insurance.

**8-3 NOTICE TO LOCAL HUD OFFICE OF INTENT TO ASSIGN.** [<TOP>](#) The lender must

notify the local HUD Office having jurisdiction over the property when the lender is preparing to assign the property to HUD and file a claim for insurance benefits. The local HUD Office must be notified at least 30 days, but not more than 60 days, prior to the anticipated date of recording the assignment to HUD. When the lender notifies HUD of its intent to assign the mortgage, it must submit:

A. The borrower's name, address, and FHA case number;

B. The borrower's checking or savings account number, name of financial institution, and any other necessary EFT information, if applicable;

C. The borrower's current payment plan, including the payment plan change that may have caused the assignment and any unscheduled payment to be made by HUD within five days;

D. The required withholding for taxes, if applicable, type and amount of any funds set aside, and any other responsibilities previously performed by the lender;

E. A copy of the notice to the borrower concerning the assignment of the mortgage to HUD and including the anticipated date of recording the assignment;

F. A payment history for the mortgage which shows all payments made by the lender throughout the loan. This information will be used to support the lender's claim for insurance benefits;

G. Evidence of the lender's most recent determination that the property is the principal residence of at least one borrower;

H. The title package on the property for the local HUD Office to review.

#### **8-4 PAYMENTS BEFORE MORTGAGE IS VOLUNTARILY ASSIGNED. [<TOP>](#)**

The borrower may request a line of credit or unscheduled payment after the lender has notified HUD of its intent to assign the mortgage.

A. If the borrower requests a line of credit payment, the lender may make the payment before the assignment is recorded if the outstanding balance after the payment is made, including any interest that will accrue and any payments made to or on behalf of the borrower (MIP, taxes and insurance, etc.) that will be added before the mortgage is assigned to HUD, does not exceed the maximum claim amount. Otherwise, the borrower should be referred to the local HUD Office to receive payment.

B. If the borrower requests an unscheduled payment, which would require a recalculation of payments, or requests a change in the payment plan, the lender may make a payment change and disburse funds (not to exceed the maximum claim amount) if the mortgage assignment has not been recorded. The lender should immediately submit the borrower's new payment plan to the local HUD Office. Otherwise, the borrower should be referred to the local HUD Office to receive payment.

The lender cannot receive mortgage insurance benefits in excess of the maximum claim amount. Therefore, any payments made after notifying HUD of the intent to assign the mortgage that cause the outstanding balance to exceed the maximum claim amount are non-reimbursable.

C. If the borrower requests either a line of credit or unscheduled payment that would cause the outstanding balance to equal or exceed 98% of the maximum claim amount, either before the lender has notified HUD of its intent to assign the mortgage or after, but before the assignment has been recorded, and the lender has notified the local HUD Office of such an action by following the procedures in Paragraph 8-3, the local HUD Office must:

- 1) Verify the payment plan or line of credit request form (used by the lender) submitted by the lender, that indicates the requested amount from the borrower, by checking the borrower's net principal limit against the outstanding balance shown the system record on HUD's automated MIP remittance system (see Chapter 7).

- 2) If the payment can be made under the borrower's net principal limit, the local HUD Office should countersign the payment plan or line of credit request form and send a facsimile of the form to the Insurance Operations Division in Headquarters.

- 3) Continue the processing of the assignment so that HUD can begin making payments to the borrower under the mortgage.

The payment can then be made by HUD to the borrower in the



required time, before the assignment has been recorded. If the borrower has made the request to HUD after the assignment has been recorded, HUD will be the lender of record and will not need to make emergency payments (see Chapter 9 for HUD servicing procedures).

**8-5 DEMAND ASSIGNMENT OF THE MORTGAGE.** [<TOP>](#) If the lender fails to make the required payments under the first mortgage,

A. The local HUD Office, having been notified by the borrower that a payment was not received, will contact the lender to determine the reason for non-payment.

B. If the local HUD Office determines that the lender cannot make the required payment, then the local HUD Office must request that the Office of Mortgage Insurance Accounting and Servicing (MIAS) in Headquarters initiate payments. The local HUD Office should send a memorandum to MIAS designating the case as a Home Equity Conversion Mortgage and containing the following information:

- 1) FHA case number.
- 2) The borrower's name and address.
- 3) The name of the financial institution and account number for the borrower's checking or savings account, and other information necessary to continue making payments to borrowers who have chosen EFT.
- 4) A copy of the borrower's current payment plan, indicating the required payments and due dates, any funds set aside and the borrower's current principal limit.
- 5) The amount of the monthly withholding for taxes, if any.

A copy of this memorandum must be sent to the Director, Single Family Servicing Division, in Headquarters.

C. After the payment is made, the local HUD Office must issue a written demand to the lender stating that:

1) If the lender plans to resume making payments under the mortgage, the lender must reimburse HUD for the amount of the total payment with interest from the date of the payment to the date reimbursement is received by HUD. An amount and date of payment and a per diem interest rate must be specified by the local HUD Office in the demand letter. Interest will be set at a rate in conformance with the Treasury Fiscal Requirements Manual.

2) If the lender can not reimburse HUD or resume making payments under the mortgage, the lender must assign the

mortgage to HUD within 30 days.

a. If the lender chooses to assign the mortgage to HUD, it must simultaneously file the assignment and submit the title package to the local HUD Office.

b. The local HUD Office, after reviewing the title package, will issue a title approval letter. The lender must submit a claim for insurance benefits no later than 15 days after the receipt of the title approval letter (see Paragraph 8-6 of this chapter).

3) If the lender fails to reimburse HUD or assign the mortgage within 30 days of the demand, the contract of insurance will be terminated.

4) If the insurance contract is terminated as a result of the lender's failure to comply with the demand, HUD will not pay a claim to the lender and the borrower's liability to the lender under the first mortgage shall be limited to payments actually made to the borrower and on the borrower's behalf, inclusive of MIP, taxes and insurance. Any interest that has accrued will be excluded from liability under the first mortgage, and no future interest will accrue. Furthermore, the first mortgage will not be paid until the second mortgage is due and payable.

5) If the insurance contract is terminated, the local HUD Office must forward a dated copy of the demand notice sent to the mortgagee to MIAS, in Headquarters, and identify the copy as a notice for a Home Equity Conversion Mortgage.

If the servicer of the mortgage is different than the holder, the local HUD Office should send the notice in Section C. of this paragraph to both the holder and the servicer of the mortgage.

**8-6 ASSIGNMENT CLAIMS.** [<TOP>](#) Refer to HUD instructions for filing claims for insurance benefits for HECMs, which can be obtained from the local HUD Office when obtaining copies of the Form HUD 27011.

A. Lenders that have chosen the assignment insurance option may file a claim for insurance benefits after the mortgage has been voluntarily assigned to HUD.

1)The claim must be filed no later than 15 days after the recording of the assignment.

2)The claim will equal the entire outstanding balance, less adjustments permitted by the regulations, up to the maximum claim amount.

3)The lender must also complete and submit with the claim a certification that states that the title package has been

sent to the local HUD Office.

B. If the mortgage has been assigned to HUD by demand, the lender is not entitled to file a claim for the entire outstanding balance on the mortgage.

1) The claim amount will only reimburse the lender for payments made to or on behalf of the borrower, excluding accrued interest.

2) HUD will deduct an amount from the payment to the lender as reimbursement for administrative expenses incurred by assuming the lender's obligations, including late charges paid to the borrower due to the lender's failure to make payment, along with other adjustments permitted by the regulations.

C. The claim amount can not exceed the maximum claim amount for the mortgage.

D. If the lender meets the time requirements for voluntarily assigning the mortgage and for filing a claim, the claim payment will include interest and might exceed the maximum claim amount. HUD will pay interest from the date the mortgage was assigned to the date when payment of the claim is made.

## **CHAPTER 9. HUD SERVICING**

**9-1 PURPOSE.** [<TOP>](#) This chapter explains the procedures for the local HUD Office to follow in servicing reverse mortgages that have been assigned to HUD. The procedures for making required payments and fulfilling other lender obligations under the mortgage are included. When the mortgage is assigned to HUD, the Department assumes all of the responsibilities of the lender. Refer to HUD Handbook 4335.2 for standard servicing procedures. This chapter supersedes that handbook only as noted below.

**9-2 BASIC SERVICING ISSUES.** [<TOP>](#) The servicing of a reverse mortgage differs from a standard forward mortgage in the following ways:

A. The local HUD Office must be able to make payments to the borrower.

1) A mortgage assigned to HUD will require that HUD make payments to the borrower or be able to disburse funds from a line of credit.

2) The local HUD Office must be able to recalculate the borrower's payments (see Chapter 5) and follow the procedures to have the borrower receive payments from HUD.

B. HUD may service a mortgage where payments are not made or

received by the borrower at all. Payments will not be made on a mortgage that has reached its principal limit. However, interest and a monthly service charge in lieu of MIP will be added to the outstanding balance.

C. The local HUD Office must not only monitor the payment of property taxes and the maintenance of hazard insurance, but must also verify that the property is the borrower's principal residence annually.

**9-3 USE OF AUTOMATED SYSTEMS.** [<TOP>](#) The local HUD Office will not use the Single Family Mortgage Notes System (SFMNS) to service reverse mortgages. The Office of Insured Single Family Housing will provide instructions for the servicing of these mortgages and the use of automated systems.

**9-4 MORTGAGES REQUIRING MONTHLY PAYMENTS.** [<TOP>](#)

A. When the local HUD Office receives a notice of the lender's intent to assign the mortgage to HUD, the following steps must be taken:

1) A memorandum must be sent to the Office of Mortgage Insurance Accounting and Servicing (MIAS) in Headquarters, designating that the case is a Home Equity Conversion Mortgage. The memorandum must contain the following information:

- a. FHA case number;
- b. The borrower's name and address;
- c. The name of the financial institution and account number for the borrower's checking or savings account, and other information necessary to continue making payments to borrowers who have chosen Electronic Funds Transfer (EFT);
- d. A copy of the borrower's current payment plan, indicating required payments, and a listing of the outstanding balance, principal limit and net principal limit, for both the entire mortgage and the line of credit, if applicable;
- e. The amount of the monthly withholding for taxes, if any;

2) A letter must be sent to the borrower containing the following information:

- a. The name and phone number of a Loan Specialist at the local HUD Office that the borrower can contact,

b. The expected date that HUD will begin making monthly payments to the borrower, the amount of the next payment due and that any late charges due to the borrower will be paid;

c. The amount that HUD will be deducting from the borrower's monthly payment for the purpose of paying taxes. The borrower should also be informed that HUD will not withhold for hazard insurance, and that the borrower will be required to maintain hazard insurance and provide HUD with proof that the premiums have been paid;

d. The borrower's outstanding balance, principal limit and net principal limit for both the entire mortgage and a line of credit, if applicable;

e. A request that the borrower notify the local HUD Office if any extended absences from the property are planned;

f. A request that the borrower provide the local HUD Office with the name of a relative or friend to be contacted in case the borrower cannot be reached.

B. If the mortgage is assigned to HUD by demand, the local HUD Office must send a memorandum to MIAS, requesting that the payments due at the time and since the lender defaulted be made, including late charges due the borrower. MIAS will already have the information in Part A. of this Paragraph from the original request. The local HUD Office must send the notice to the borrower required above.

#### **9-5 MORTGAGES NOT REQUIRING MONTHLY PAYMENTS. [<TOP>](#)**

A. A memorandum must be sent to MIAS, in Headquarters, designating that the case is a Home Equity Conversion Mortgage. The memorandum must contain the following information:

- 1) FHA case number;
- 2) The borrower's name and address;
- 3) The name of the financial institution and account number for the borrower's checking or savings account, and other information necessary to continue making payments to borrowers who have chosen Electronic Funds Transfer (EFT);
- 4) A copy of the borrower's current payment plan, and a listing of the borrower's outstanding balance, principal limit and net principal limit;
- 5) The amount of any required payments for taxes.

B.A letter must be sent to the borrower containing the following information:

1) The name and phone number of a Loan Specialist at the local HUD Office that the borrower can contact,

2) The amount that HUD will be adding to the borrower's outstanding balance for the purpose of paying taxes. The borrower should also be informed that HUD will not withhold for hazard insurance, and that the borrower will be required to maintain hazard insurance and provide HUD with proof that the premiums have been paid;

3) The borrower's outstanding balance, principal limit and net principal limit;

4) A request that the borrower notify the local HUD Office if any extended absences from the property are planned;

5) A request that the borrower provide the local HUD Office with the name of a relative or friend to be contacted in case the borrower can not be reached.

**9-6 ESTABLISHING A SERVICING ACCOUNT.** [<TOP>](#) The local HUD Office must perform the following with all assigned mortgages:

A. A tax record must be established to assure that either proof of tax payment is received from the borrower 30 days before the penalty date or the local HUD Office pays the tax when it is due.

1) The contents of the tax record are listed in Paragraph 3-6D. of HUD Handbook 4335.2.

2) The local HUD Office must send a separate tax transmittal to the Regional Accounting Division (RAD) identified as a HECM account. The transmittal must be received by RAD at least 15 days before the penalty date.

3) The procedures for withholding for taxes in HUD Handbook 4330.1 should be followed.

4) If tax penalties or interest has been charged due to the borrower's failure to make required payments, these charges must be added to the outstanding balance.

B. The local HUD Office must ensure that a hazard insurance policy up to the value of insurable property improvements at closing has been obtained by the borrower and that the policy remains in effect throughout the life of the loan.

C. A certification schedule must be established to ensure that the local HUD Office verifies annually that the property is the

principal residence of at least one borrower.

D. A schedule for adjusting the interest rates on adjustable rate reverse mortgages must be established. The local HUD Office must notify MIAS at least 30 days before the change date (monthly or annually). The local HUD Office must recalculate the interest rate according to the provisions of the mortgage and the procedures established in Mortgagee Letter 89-24, and provide the disclosure required at least 25 days before the first adjustment in the outstanding balance after the change date.

E. The local HUD Office must use the procedures outlined in Chapter 5 to recalculate the borrower's payments.

#### **9-7 BORROWER DEFAULTS. [<TOP>](#)**

A. If the borrower fails to make payments for taxes and hazard insurance, the local HUD Office must arrange to make the payments, including late charges and penalties, if any, and add the amount of any payments to the outstanding balance. If the local HUD Office makes payments for the borrower and the borrower does not have a line of credit, the local HUD Office must change the borrower's payment plan to accommodate the payments. The local HUD Office may begin withholding monthly amounts from the borrower's payments for the purpose of paying taxes and insurance, if the borrower regularly fails to make these payments.

B. The borrower must maintain the condition of the property. If aware of a deterioration in the property's condition:

1) The local HUD Office may notify the borrower of the deficient condition of the property, indicating the required repairs for bringing the property up to an acceptable condition.

2) If the borrower fails to comply with this request within 60 days by beginning to correct the condition of the property, the local HUD Office may declare the mortgage due and payable.

Situations where the conditions under the mortgage are not being met should be referred to a HUD-approved housing counseling agency in the area, if a solution to the problem can not be found. The local HUD Office is advised to refer the borrower to a counseling agency before declaring a technical default under the mortgage.

If the borrower fails to comply with these requirements after warning by the local HUD Office, and the borrower's principal limit is insufficient to make these payments or cover the cost of repairs, the local HUD Office may declare the mortgage due and payable.

#### **9-8 DAMAGED PROPERTY. [<TOP>](#)**

A. If the property is damaged and insurance proceeds are available to restore the property, the instructions in Paragraph 3-7C., HUD Handbook 4335.2, must be followed.

B. If the property is damaged and is either uninsured or under-insured, the local HUD Office must obtain an estimate of the cost of repairs.

1) If the borrower's principal limit is sufficient to cover the cost of repairs, the borrower may:

a. Restore the property and receive an unscheduled payment to pay for repairs. This procedure would reduce any monthly payments that he or she may have been receiving, or

b. Sell the property for the as-is appraised value of the property.

2) If the property is uninhabitable due to damage and the borrower's principal limit is insufficient to cover the cost of repairs, the local HUD Office must issue a Repayment Notice to the borrower to foreclose and proceed with foreclosure if the borrower cannot sell the property.

**9-9 PAYOFFS.** [<TOP>](#) If the borrower or the borrower's estate requests to pay off the mortgage, the local HUD Office must:

A. Request a payoff statement from MIAS, which will need the following information to calculate the payoff amount:

1) The cost of the appraisal (to be added to the outstanding balance);

2) The date that monthly payments, if any, will cease;

3) The amount of any tax payments that are due but unpaid. These amounts may have been withheld from monthly payments, but have not been added to the outstanding balance.

4) The expected date of payoff.

B. The local HUD Office should follow the instructions in HUD Handbook 4330.1 for calculating the correct payoff, amount, including any shared appreciation.

C. If the borrower requests to pay off the mortgage through the sale of the property, he or she may request an appraisal, and pay off the lesser of the appraised value and the outstanding balance on the mortgage. Refer to HUD Handbook 4330.1 for procedures to follow.



**9-10 DUE AND PAYABLE MORTGAGES.** [<TOP>](#) The local HUD Office should follow the procedures in HUD Handbook 4330.1 for evaluating the conditions that would cause the mortgage to be due and payable and lead to foreclosure, and for the payoff requirements for due and payable mortgages.

**APPENDIX 1** [<TOP>](#)

MODEL MORTGAGE FORM  
(HOME EQUITY CONVERSION)  
[See Instructions Attached]

FHA Case No.

\_\_\_\_\_ [Space Above This Line For Recording Data] \_\_\_\_\_

MORTGAGE

THIS MORTGAGE ("Security Instrument") is given on \_\_\_\_\_, 19 \_\_\_\_ . The mortgagor is \_\_\_\_\_, whose address is \_\_\_\_\_ ("Borrower"). This Security Instrument is given to \_\_\_\_\_, which is organized and existing under the laws of \_\_\_\_\_, and whose address is \_\_\_\_\_ ("Lender"). Borrower has agreed to repay to Lender amounts which Lender is obligated to advance, including future advances, under the terms of a Home Equity Conversion Loan Agreement dated the same date as this Security Instrument ("Loan Agreement"). The agreement to repay is evidenced by Borrower's Note dated the same date as this Security Instrument ("Note"). This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications of the Note, up to a maximum principal amount of \_\_\_\_\_ Dollars (U.S. \$ \_\_\_\_\_); (b) the payment of all other sums, with interest, advanced under paragraph 5 to protect the security of this Security Instrument or otherwise due under the terms of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower does hereby mortgage, warrant, grant and convey to Lender, with power of sale, the following described property located in \_\_\_\_\_ County, Michigan:

which has the address of \_\_\_\_\_,  
[Street] [City],  
[State] [Zip Code]  
("Property Address")

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seized of the estate hereby conveyed and has the right to mortgage, grant and convey the Property and that the Property is unencumbered. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest. Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Note.
2. Payment of Property Charges. Borrower shall pay all property charges consisting of taxes, ground rents, flood and hazard insurance premiums, and special assessments in a timely manner, and shall provide evidence of payment to Lender, unless Lender pays property charges by withholding funds from monthly payments due to the Borrower or by charging such payments to a line of credit as provided for in the Loan Agreement.
3. Fire, Flood and Other Hazard Insurance. Borrower shall insure all improvements on the Property, whether now in existence or subsequently erected, against any hazards, casualties, and contingencies, including fire. This insurance shall be maintained in the amounts, to the extent and for the periods required by Lender or the Secretary of Housing and Urban Development ("Secretary"). Borrower shall also insure all improvements on the Property, whether now in existence or subsequently erected, against loss by floods to the extent required by the Secretary. All insurance shall be carried with companies approved by Lender. The insurance policies and any renewals shall be held by Lender and shall include loss payable clauses in favor of, and in a form acceptable to, Lender.

In the event of loss, Borrower shall give Lender immediate notice by mail. Lender may make proof of loss if not made promptly by Borrower. Each insurance company concerned is hereby authorized and directed to make payment for such loss to Lender instead of to Borrower and Lender jointly. Insurance proceeds shall be applied to restoration or repair of the damaged Property, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied first to the reduction of any indebtedness under a Second Note and Second Security Instrument held by the Secretary on the Property and then to the reduction of the indebtedness under the Note and this Security Instrument. Any excess insurance proceeds over an amount required to pay all outstanding indebtedness under the Note and this Security Instrument shall be paid to the entity legally entitled thereto.

In the event of foreclosure of this Security Instrument or other transfer of title to the Property that extinguishes the indebtedness, all right; title and interest of Borrower in and to insurance policies in force shall pass to the purchaser.

4. Occupancy, Preservation, Maintenance and Protection of the Property; Borrower's Loan Application; Leaseholds. Borrower shall occupy, establish, and use the Property as Borrower's principal residence after the execution of this Security Instrument and Borrower (or at least one Borrower, if initially more than one person are Borrowers) shall continue to occupy the Property as Borrower's principal residence for the term of the Security Instrument. "Principal residence" shall have the same meaning as in the Loan Agreement

Borrower shall not commit waste or destroy, damage or substantially change the Property or allow the Property to deteriorate, reasonable wear and tear excepted. Borrower shall also be in default if Borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the

loan evidenced by the Note, including, but not limited to, representations concerning Borrower's occupancy of the Property as a principal residence. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and fee title shall not be merged unless Lender agrees to the merger in writing.

5. Charges to Borrower and Protection of Lender's Rights in the Property. Borrower shall pay all governmental or municipal charges, fines and impositions that are not included in Paragraph 2. Borrower shall pay these obligations on time directly to the entity which is owed the payment. If failure to pay would adversely affect Lender's interest in the Property, upon Lender's request Borrower shall promptly furnish to Lender receipts evidencing these payments. Borrower shall promptly discharge any lien which has priority over this Security Instrument in the manner provided in Paragraph 12(c).

If Borrower fails to make these payments or the property charges required by Paragraph 2, or fails to perform any other covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, for condemnation or to enforce laws or regulations), then Lender may do and pay whatever is necessary to protect the value of the Property and Lender's rights in the Property, including payment of taxes, hazard insurance and other items mentioned in Paragraph 2.

To protect Lender's security in the Property, Lender shall advance and charge to Borrower all amounts due to the Secretary for the Mortgage Insurance Premium as defined in the Loan Agreement as well as all sums due to the loan servicer for servicing activities as defined in the Loan Agreement. Any amounts disbursed by Lender under this Paragraph shall become an additional debt of Borrower as provided for in the Loan Agreement and shall be secured by this Security Instrument.

6. Inspection. Lender or its agent may enter on, inspect or make

appraisals of the Property in a reasonable manner and at reasonable times provided that Lender shall give the Borrower notice prior to any inspection or appraisal specifying a purpose for the inspection or appraisal which must be related to Lender's interest in the Property. If the Property is vacant or abandoned or the loan is in default, Lender may take reasonable action to protect and preserve such vacant or abandoned Property without notice to the Borrower.

7. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation, or other taking of any part of the Property, or for conveyance in place of condemnation shall be paid to Lender. The proceeds shall be applied first to the reduction of any indebtedness under a Second Note and Second Security Instrument held by the Secretary on the Property, and then to the reduction of the indebtedness under the Note and this Security Instrument. Any excess proceeds over an amount required to pay all outstanding indebtedness under the Note and this Security Instrument shall be paid to the entity legally entitled thereto.

8. Fees. Lender may collect fees and charges authorized by the Secretary.

#### 9. Grounds for Acceleration of Debt.

(a) Due and Payable. Lender may require immediate payment in full of all sums secured by this Security Instrument if:

(i) A Borrower dies and the Property is not the principal residence of at least one surviving Borrower;  
or

(ii) All of a Borrower's title in the Property (or his or her beneficial interest in a trust owning all or part of the Property) is sold or otherwise transferred and no other Borrower retains title to the Property in fee simple or retains a leasehold under a lease for less than 99 years which is renewable or a lease having a remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest Borrower (or retaining a beneficial interest in a trust with such an interest in the Property).

(b) Due and Payable with Secretary Approval. Lender may require immediate payment in full of all sums secured by this Security Instrument, upon approval of the Secretary, if:

(i) The Property ceases to be the principal residence of a Borrower for reasons other than death and the Property is not the principal residence of at least one other Borrower; or

(ii) For a period of longer than 12 consecutive months, a Borrower fails to occupy the Property because

of physical or mental illness and the Property is not the principal residence of at least one other Borrower;  
or

(iii) An obligation of the Borrower under this Security Instrument is not performed.

(c) Notice to Lender. Borrower shall notify Lender whenever any of the events listed in this Paragraph 9 (a)(ii) and (b) occur.

(d) Notice to Secretary and Borrower. Lender shall notify the Secretary and Borrower whenever the loan becomes due and payable under Paragraph 9 (a)(ii) and (b). Lender shall not have the right to commence foreclosure until Borrower has had 30 days after notice to either:

(i) Correct the matter which resulted in the Security Instrument coming due and payable; or

(ii) Pay the balance in full; or

(iii) Sell the Property for the lesser of the balance or 95% of the appraised value and apply the net proceeds of the sale toward the balance; or

(iv) Provide the Lender with a deed in lieu of foreclosure.

(e) Trusts. Conveyance of a Borrower's interest in the Property to a trust which meets the requirements of the Secretary, or conveyance of a trust's interests in the Property to a Borrower, shall not be considered a conveyance for purposes of this Paragraph 9. A trust shall not be considered an occupant or be considered as having a principal residence for purposes of this Paragraph 9.

(f) Mortgage Not Insured. [Optional] Borrower agrees that should this Security Instrument and the Note not be eligible for insurance under the National Housing Act within /1 from the date hereof, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. A written statement of any authorized agent of the Secretary dated subsequent to /1 from the date hereof, declining to insure this Security Instrument and the Note, shall be deemed conclusive proof of such ineligibility. Notwithstanding the foregoing, this option may not be exercised by Lender when the unavailability of insurance is solely due to Lender's failure to remit a mortgage insurance premium to the Secretary.

10. No Deficiency Judgments. Borrower shall have no personal liability for payment of the debt secured by this Security Instrument.

Lender may enforce the debt only through sale of the Property. Lender shall not be permitted to obtain a deficiency judgment against Borrower if the Security Instrument is foreclosed. If this Security Instrument is assigned to the Secretary upon demand by the Secretary, Borrower shall not be liable for any difference between the mortgage insurance benefits paid to Lender and the outstanding indebtedness, including accrued interest, owed by Borrower at the time of the assignment.

11. Reinstatement. Borrower has a right to be reinstated if Lender has required immediate payment in full. This right applies even after foreclosure proceedings are instituted. To reinstate this Security Instrument, Borrower shall correct the condition which resulted in the requirement for immediate payment in full. Foreclosure costs and reasonable and customary attorney's fees and expenses properly associated with the foreclosure proceeding shall be added to the principal balance. Upon reinstatement by Borrower, this Security Instrument and the obligations that it secures shall remain in effect as if Lender had not required immediate payment in full. However, Lender is not required to permit reinstatement if: (i) Lender has accepted reinstatement after the commencement of foreclosure proceedings within two years immediately preceding the commencement of a current foreclosure proceeding, (ii) reinstatement will preclude foreclosure on different grounds in the future, or (iii) reinstatement will adversely affect the priority of the Security Instrument.

## 12. Lien Status.

### (a) Modification.

Borrower agrees to extend this Security Instrument in accordance with this Paragraph 12(a). If Lender determines that the original lien status of the Security Instrument is jeopardized under state law (including but not limited to situations where the amount secured by the Security Instrument equals or exceeds the maximum principal amount stated or the maximum period under which loan advances retain the same lien priority initially granted to loan advances has expired) and state law permits the original lien status to be maintained for future loan advances through the execution and recordation of one or more documents, then Lender shall obtain title evidence at Borrower's expense. If the title evidence indicates that the property is not encumbered by any liens (except this Security Instrument, the Second Security Instrument described in Paragraph 13(a) and any subordinate liens that the Lender determines will also be subordinate to any future loan advances), Lender shall request the Borrower to execute any documents necessary to protect the lien status of future loan advances. Borrower

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1/ Lenders are authorized, but not required, to add Paragraph 9(f) to the first security instrument. If used, a period may be inserted in the two blanks expressed either in number of days or months, which is not shorter than 60 days and not longer than 8 months.

agrees to execute such documents. If state law does not permit the original lien status to be extended to future loan advances, Borrower will be deemed to have failed to have performed an obligation under this Security Instrument.

(b) Tax Deferral Programs.

Borrower shall not participate in a real estate tax deferral program, if any liens created by the tax deferral are not subordinate to this Security Instrument.

(c) Prior Liens.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien or forfeiture of any part of the Property; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to all amounts secured by this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one more of the actions set forth above within 10 days of the giving of notice.

13. Relationship to Second Security Instrument.

(a) Second Security Instrument. In order to secure payments which the Secretary may make to or on behalf of Borrower pursuant to Section 255(i)(1)(A) of the National Housing Act and the Loan Agreement, the Secretary has required Borrower to execute a Second Note and a Second Security Instrument on the Property.

(b) Relationship of First and Second Security Instruments. Payments made by the Secretary shall not be included in the debt under the Note unless:

(i) This Security Instrument is assigned to the Secretary; or

(ii) The Secretary accepts reimbursement by the Lender for all payments made by the Secretary.

If the circumstances described in (i) or (ii) occur, then all payments by the Secretary, including interest on the payments, but excluding late charges paid by the Secretary, shall be included in the debt under the Note.

(c) Effect on Borrower. Where there is no assignment or reimbursement as described in (b)(i) or (ii) and the Secretary makes payments to Borrower, then Borrower shall not:

(i) Be required to pay amounts owed under the Note, or pay any rents and revenues of the Property under Paragraph 19 to Lender or a receiver of the Property, until the Secretary has required payment in full of all outstanding principal and accrued interest under the Second Note; or

(ii) Be obligated to pay interest or shared appreciation under the Note at any time, whether accrued before or after the payments by the Secretary, and whether or not accrued interest has been included in the principal balance under the Note.

(d) No Duty of the Secretary. The Secretary has no duty to Lender to enforce covenants of the Second Security Instrument or to take actions to preserve the value of the Property, even though Lender may be unable to collect amounts owed under the Note because of restrictions in this Paragraph 13.

14. Forbearance by Lender Not a Waiver. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

15. Successors and Assigns Bound; Joint and Several Liability. The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns of Lender. Borrower may not assign any rights or obligations under this Security Instrument or under the Note, except to a trust that meets the requirements of the Secretary. Borrower's covenants and agreements shall be joint and several.

16. Notices. Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address all Borrowers jointly designate. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any address Lender designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this Paragraph 16.

17. Governing Law; Severability. This Security Instrument shall be governed by Federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To



this end the provisions of this Security Instrument and the Note are declared to be severable.

18. Borrower's Copy. Borrower shall be given one conformed copy of the Note and the Security Instrument.

NON-UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

19. Assignment of Rents. [Use this language unless prohibited by state law.] Borrower unconditionally assigns and transfers to Lender all the rents and revenues of the Property. Borrower authorizes Lender or Lender's agents to collect the rents and revenues and hereby directs each tenant of the Property to pay the rents to Lender or Lender's agents. However, prior to Lender's notice to Borrower of Borrower's breach of any covenant or agreement in the Security Instrument, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower. This assignment of rents constitutes an absolute assignment and not an assignment for additional security only.

If Lender gives notice of breach to Borrower: (a) all rents received by Borrower shall be held by Borrower as trustee for benefit of Lender only, to be applied to the sums secured by this Security Instrument; (b) Lender shall be entitled to collect and receive all of the rents of the Property; and (c) each tenant of the Property shall pay all rents due and unpaid to Lender or Lender's agent on Lender's written demand to the tenant.

Borrower has not executed any prior assignment of the rents and has not and will not perform any act that would prevent Lender from exercising its rights under this Paragraph 19.

Lender shall not be required to enter upon, take control of or maintain the Property before or after giving notice of breach to Borrower. However, Lender or a judicially appointed receiver may do so at any time there is a breach. Any application of rents shall not cure or waive any default or invalidate any other right or remedy of Lender. This assignment of rents of the Property shall terminate when the debt secured by this Security Instrument is paid in full.

20. Foreclosure Procedure. [For illustration only. Needs state adaptation as provided in the instructions attached.] If Lender requires immediate payment in full under Paragraph 9, Lender may invoke the power of sale and any other remedies provided in this Paragraph 20, including, but not limited to, reasonable attorney's fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall give notice of sale to Borrower in the manner provided in Paragraph 16. Lender shall publish and post the notice of sale, and the Property shall be sold in the manner prescribed by applicable law. Lender or its designee may purchase the Property at any sale. The proceeds of the sale shall be applied in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable attorney's fees; (b) to all sums secured by this

Security Instrument, and (c) any excess to the person or persons legally entitled to it.

[Add any state-specific provisions in accordance with the instructions attached and HUD Handbook 4165.1 REV-1, Chapter 4]

[Number as final paragraph.] Riders to this Security Instrument. If one or more riders are executed by Borrower and recorded together with this Security Instrument, the covenants of each such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Security Instrument as if the rider(s) were a part of this Security Instrument. [Check applicable box(es)].

- Condominium Rider                       Planned Unit Development Rider  
 Shared Appreciation Rider             Other [Specify]

BY SIGNING BELOW, Borrower accepts and agrees to the terms contained in this Security Instrument and in any rider(s) executed by Borrower and recorded with it.

Witnesses:

\_\_\_\_\_ (SEAL)  
Borrower

\_\_\_\_\_ (SEAL)  
Borrower

\_\_\_\_\_[Space Below This Line For  
Acknowledgement]\_\_\_\_\_

#### Instructions for Model Mortgage Form (Home Equity Conversion)

HUD requires that a security instrument follow the form and content of the approved FNMA/FHLMC security instrument for the jurisdiction, except where HUD has determined that differences are needed to reflect HUD policy and practice. The following explains those differences. Additional instructions are found in Chapter 4, HUD Handbook 4165.1 and Chapter 6, HUD Handbook 4235.1.

#### Language Preceding Uniform Covenants

Use FNMA/FHLMC language but:

- a. Add a box for the FHA Case No. as shown on the Model Form.
- b. For a Mortgage, delete the language beginning with "THIS MORTGAGE" or "THIS DEED OF TRUST" through "covenants and agreements under this Security Instrument and Note." Substitute the language shown on the Model Form. The phrase "up to a maximum principal amount of Dollars (U.S. \$       )" should be omitted in jurisdictions where there is no

legal requirement to state the maximum principal amount in a mortgage or deed of trust. If the phrase is used, the blank should be completed with an amount equal to or greater than 150% of the maximum claim amount.

c. For a Deed of Trust, follow the instructions in "b" above, except that the first three sentences of the Model Form must be further revised to read as follows:

This DEED OF TRUST ("Security Instrument") is made on \_\_\_\_\_, 19 \_\_\_\_ . The grantor [or trustor] is ("Borrower"). The trustee is \_\_\_\_\_ ("Trustee"). The beneficiary is \_\_\_\_\_, which is organized and existing under the laws of \_\_\_\_\_, and whose address is \_\_\_\_\_ ("Lender").

d. For Colorado deeds of trust, Georgia security deeds and Louisiana mortgages, the FNMA/FHLMC forms should be consulted for guidance regarding additional adaptation of the initial language of the Security Instrument, including language describing a note for Louisiana.

e. For Maine and New York in which FNMA and FHLMC use "plain English" forms, the format and language should be based on FNMA/FHLMC forms for other states provided that the language is in conformity with applicable law.

The Model Form uses the FNMA/FHLMC language for Michigan as an example. The form may include variations to the standard language that have been approved by FNMA and/or FHLMC.

#### Uniform Covenants

The form should designate the paragraphs preceding Paragraph 20 on foreclosure procedures as "Uniform Covenants". The text of these paragraphs must be used as presented in the Model Form without any change. FNMA/FHLMC language may not be substituted. If change is needed to make requirements of state or local law or practice, written approval from HUD is needed before the change is made.

#### Non-Uniform Covenants

The form should designate the paragraphs beginning with Paragraph 19 on assignment of rents as "Non-Uniform Covenants".

a. The FNMA/FHLMC paragraph on foreclosure procedures will need adaptation to reflect HUD policy. The Model Form contains an adaptation of the FNMA/FHLMC language for Michigan as an example. Following the phrase "If Lender requires immediate payment in full under Paragraph 9" as shown in Paragraph 20 of the Model Form, the mortgage should use the foreclosure procedures paragraph of the current approved FNMA/FHLMC form (including language regarding payment of costs such as attorney's fees) as a guide with any necessary adaptation to conform to these instructions. Language in the

FNMA/FHLMC paragraph regarding notice and acceleration should be omitted. For Maine and New York, Lenders should use foreclosure language based on these instructions and other FNMA/FHLMC forms that are not "plain English" forms provided that the language will authorize foreclosure in conformity with applicable law. The mortgage must include the Lender's right to a public sale of the Property, including a power of sale if legally permissible in the jurisdiction in which the property is located even if mortgages are usually foreclosed through a judicial proceeding.

b. The paragraphs following Paragraph 20 should contain provisions required to adapt the mortgage to the laws and practices of the particular jurisdiction in which the Property is located. The text of these paragraphs should be the same as the FNMA/FHLMC non-uniform covenants for the jurisdiction in which the Property is located. Changes to the FNMA/FHLMC paragraphs and additional material may be included if needed to conform to requirements of state law or practice. The paragraph entitled "Riders to this Security Instrument" should be used as shown in the Model Form instead of as shown in the FNMA/FHLMC forms.

c. Any special language or notices required by applicable law should appear following the non-uniform covenants using the FNMA/FHLMC form as a guide.

Signatures, etc.

Use the FNMA/FHLMC format at the end of the mortgage except that:

a. Witness lines may be omitted if state and local law does not require witnesses for mortgages.

b. HUD does not require the Borrower's social security number to appear on the mortgage.

## **APPENDIX 2** [<TOP>](#)

### MODEL FIXED RATE NOTE FORM (HOME EQUITY CONVERSION)

FHA Case No.

State of 1

NOTE

, 19

[Property Address]

1.DEFINITIONS

"Borrower" means each person signing at the end of this Note.  
"Lender" means \_\_\_\_\_ and its successors and assigns.  
"Secretary" means the Secretary of Housing and Urban Development or his or her authorized representatives.

## 2. BORROWER'S PROMISE TO PAY; INTEREST

In return for amounts to be advanced by Lender to or for the benefit of Borrower under the terms of a Home Equity Conversion Loan Agreement dated \_\_\_\_\_, 19\_\_\_\_ ("Loan Agreement"), Borrower promises to pay to the order of Lender a principal amount equal to the sum of all Loan Advances made under the Loan Agreement with interest. Interest will be charged on unpaid or principal at the rate of \_\_\_\_\_ per cent ( \_\_\_\_%) per year until the full amount of principal has been paid. Accrued interest shall be added to the principal balance as a Loan Advance at the end of each month.

## 3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or similar security instrument that is dated the same date as this Note and called the "Security Instrument." That Security Instrument protects the Lender from losses which might result if Borrower defaults under this Note.

## 4. MANNER OF PAYMENT

### (A) Time

Borrower shall pay all outstanding principal and accrued interest to Lender upon receipt of a notice by Lender requiring immediate payment in full, as provided in Paragraph 6 of this Note.

### (B) Place

Payment shall be made at \_\_\_\_\_ or at such other place as Lender may designate in writing by notice to Borrower.

### (C) Limitation of liability

Borrower shall have no personal liability for payment of this Note. Lender shall enforce the debt only through sale of the Property covered by the Security Instrument ("Property"). If the Note is assigned to the Secretary, the Borrower shall not be liable for any difference between the mortgage insurance benefits paid to Lender and the outstanding indebtedness, including accrued interest, owed by Borrower at the time of the assignment.

## 5. BORROWER'S RIGHT TO PREPAY

A borrower receiving monthly payments under the Loan Agreement has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty on the first day of any month. Otherwise, a Borrower has

the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty after giving Lender two weeks notice. Any amount of debt prepaid will first be applied to reduce the principal balance of the Second Note described in Paragraph 10 of this Note and then to reduce the principal balance of this Note.

All prepayments of the principal balance shall be applied by Lender as follows:

First, to that portion of the principal balance representing aggregate payments for mortgage insurance premiums;

Second, to that portion of the principal balance representing aggregate payments for servicing fees;

Third, to that portion of the principal balance representing accrued interest due under the Note; and

Fourth, to the remaining portion of the principal balance.

## 6. IMMEDIATE PAYMENT IN FULL

### (A) Death or Sale

Lender may require immediate payment in full of all outstanding principal and accrued interest if:

(i) A Borrower dies and the Property is not the principal residence of at least one surviving Borrower, or

(ii) A Borrower conveys all of his or her title to the Property and no other Borrower retains title to the Property in fee simple or on a leasehold interest as set forth in 24 CFR 296.45(a).

### (B) Other Grounds

Lender may require immediate payment in full of all outstanding principal and accrued interest, upon approval by an authorized representative of the Secretary, if:

(i) The Property ceases to be the principal residence of a Borrower for reasons other than death and the Property is not the principal residence of at least one other Borrower;

(ii) For a period of longer than 12 consecutive months, a Borrower fails to physically occupy the Property because of physical or mental illness and the Property is not the principal residence of at least one other Borrower; or

(iii) An obligation of the Borrower under the Security Instrument is not performed.

### (C) Payment of Costs and Expenses

If Lender has required immediate payment in full, as described above, the debt enforced through sale of the Property may include costs and expenses including reasonable and customary attorney's fees for enforcing this Note. Such fees and costs shall bear interest from the date of disbursement at the same rate as the principal of this Note.

### (D) Trusts

Conveyance of a Borrower's interest in the Property to a trust which meets the requirements of the Secretary, or conveyances of a trust's interests in the Property to a Borrower, shall not be considered a conveyance for purposes of this Paragraph. A trust shall not be considered an occupant or be considered as having a principal residence for purposes of this Paragraph.

## 7. WAIVERS

Borrower waives the rights of presentment and notice of dishonor. "Presentment" means the right to require Lender to demand payment of amounts due. "Notice of dishonor" means the right to require Lender to give notice to other persons that amounts due have not been paid.

## 8. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to Borrower under this Note will be given by delivering it or by mailing it by first class mail to Borrower at the property address above or at a different address if Borrower has given Lender a notice of Borrower's different address.

Any notice that must be given to Lender under this Note will be given by first class mail to Lender at the address stated in Paragraph 4(B) or at a different address if Borrower is given a notice of that different address.

## 9. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note only through sale of the Property.

## 10. RELATIONSHIP TO SECOND NOTE

### (A) Second Note

Because Borrower will be required to repay amounts which the Secretary may make to or on behalf of Borrower pursuant to Section 255(i)(A) of the National Housing Act and the Loan Agreement, the Secretary has required Borrower to grant a Second Note to the Secretary.

(B) Relationship or Secretary Payments to this Note

Payments made by the Secretary shall not be included in the debt due under this Note unless:

(i) This Note is assigned to the Secretary; or

(ii) The Secretary accepts reimbursement by the Lender for all payments made by the Secretary.

If the circumstances described in (i) or (ii) occur, then all payments by the Secretary, including interest on the payments, shall be included in the debt.

(C) Effect on Borrower

Where there is no assignment or reimbursement as described in (B)(i) or (ii) and the Secretary makes payments to Borrower, then Borrower shall not:

(i) Be required to pay amounts owed under this Note until the Secretary has required payment in full of all outstanding principal and accrued interest under the Second Note held by Secretary, notwithstanding anything to the contrary in Paragraph 6 of this Note; or

(ii) Be obligated to pay interest or shared appreciation under this Note at any time, whether accrued before or after the payments by the Secretary, and whether or not accrued interest has been included in the principal balance of this Note, notwithstanding anything to the contrary in Paragraph 2 of the Note or any Allonge to this Note.

11. SHARED APPRECIATION /2

If Borrower has executed a Shared Appreciation Allonge, the covenants of the Allonge shall be incorporated into and supplement the covenants of this Note as if the Allonge were a part of this Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Note. /3, /4

\_\_\_\_\_ (SEAL)  
Borrower

\_\_\_\_\_ (SEAL)  
Borrower



1. Either add the appropriate jurisdiction or substitute "Multistate." Use "Commonwealth of" or "Territory of" if applicable.
2. The paragraph may be omitted if Lender does not offer a shared appreciation mortgage.
3. Include any required or customary form of authentication.
4. The model note is a multistate form which requires adaptation for the following jurisdictions:
  - a. Alaska. Add the Borrower's Post Office address, if different from the property address.
  - b. Kansas. Delete "including reasonable and customary attorney's fees" from Paragraph 6(C).
  - c. Kentucky. Paragraph 6(C) should be changed to read:

If Lender has required immediate payment in full, as described above, the debt enforced through sale of the property may include \$500.00 for costs and expenses for enforcing this Note. Such costs and expenses shall bear interest from the date of disbursement at the same rate as the principal of this Note.

- d. Louisiana. Add the following text following the Borrower's signature lines:

"NE VARIETUR" for identification with a mortgage with a mortgage given before me on 19\_\_\_\_.

\_\_\_\_\_  
Notary qualified in \_\_\_\_\_  
Parish, Louisiana

- e. Puerto Rico. Mortgages and notes in Puerto Rico, and all riders and allonges, shall be written in English and interlineated with Spanish in the same manner as the FNMA/FHLMC forms for Puerto Rico. Contact the Home Mortgage Division, Office of General Counsel, at HUD Headquarters for guidance.

- f. Virginia. The first sentence of Paragraph 7 should be changed to read:

"Borrowers under this Note waive the rights of presentment and notice of dishonor and waive the homestead exemption."

After the Borrower's signature lines, add:

This is to certify that this is the Note described in and secured by a Deed of Trust dated \_\_\_\_\_, 19\_\_\_\_ on the Property located in \_\_\_\_\_, Virginia.

My Commission expires:

\_\_\_\_\_  
Notary Public

### **APPENDIX 3 <TOP>**

#### MODEL ADJUSTABLE RATE NOTE FORM (HOME EQUITY CONVERSION)

FHA Case No.

#### ADJUSTABLE RATE NOTE

[Date]

[Property Address]

#### 1. DEFINITIONS

"Borrower" means each person signing at the end of this Note.  
"Lender" means \_\_\_\_\_ and its successors  
and assigns. "Secretary" means the Secretary of Housing and Urban  
Development or his or her authorized representatives.

#### 2. BORROWER'S PROMISE TO PAY; INTEREST

In return for amounts to be advanced by Lender to or for the benefit  
of Borrower under the terms of a Home Equity Conversion Loan Agreement  
dated \_\_\_\_\_, 19\_\_\_\_ ("Loan Agreement"), Borrower promises  
to pay to the order of Lender a principal amount equal to the sum of all  
Loan Advances made under the Loan Agreement with interest. Interest will  
be charged on unpaid principal at the rate of \_\_\_\_\_ percent (\_\_\_\_%) per year  
until the full amount of principal has been paid. The interest rate may  
change in accordance with Paragraph 5 of this Note. Accrued interest shall  
be added to the principal balance as a Loan Advance at the end of each  
month.

#### 3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or  
similar security instrument that is dated the same date as this Note and  
called the "Security Instrument." That Security Instrument protects the  
Lender from losses which might result if Borrower defaults under this Note.

#### 4. MANNER OF PAYMENT

(A) Time

Borrower shall pay all outstanding principal and accrued  
interest to Lender upon receipt of a notice by Lender requiring immediate  
payment in full, as provided in Paragraph 7 of this Note.

(B) Place

Payment shall be made at \_\_\_\_\_ or any such other place as Lender may designate in writing by notice to Borrower.

(C) Limitation of Liability

Borrower shall have no personal liability for payment of the debt. Lender shall enforce the debt only through sale of the Property covered by the Security Instrument ("Property"). If this Note is assigned to the Secretary, the Borrower shall not be liable for any difference between the mortgage insurance benefits paid to Lender and the outstanding indebtedness, including accrued interest, owed by Borrower at the time of the assignment.

5. INTEREST RATE CHANGES 1/

(A) Change Date

The interest rate may change on the first day of \_\_\_\_\_, 19\_\_\_\_, and on that day of each succeeding year. "Change Date" means each date on which the interest rate could change.

(B) The Index

Beginning with the first Change Date, the interest rate will be based on an Index "Index" means the weekly average yield on United States Treasury Securities adjusted to a constant maturity of one year, as made available by the Federal Reserve Board. "Current Index" means the most recent Index figure available 30 days before the Change Date. If the Index (as defined above) is no longer available, Lender will use as a new Index any index prescribed by the Secretary. Lender will give Borrower notice of the new Index.

(C) Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest rate by adding a margin of percentage points ( \_\_\_\_ %) to the current Index. /2 Subject to the limits stated in Paragraph 5(D) of this Note, this amount will be the new interest rate until the next Change Date.

(D) Limits on Interest Rate Changes

The interest rate will never increase or decrease by more than two percentage points (2.0%) on any single Change Date. The interest rate will never be more than five percentage points (5.0%) higher or lower than the initial interest rate stated in Paragraph 2 of this Note.

(E) Notice of Changes

Lender will give notice to Borrower of any change in the interest rate. The notice must be given at least 25: days before the new interest rate takes effect, and must set forth (i) the date of the notice, (ii) the Change Date, (iii) the old interest rate, (iv) the new interest rate, (v) the Current Index, (vi) the method of calculating the adjusted interest rate, and (vii) any other information which may be required by law from time to time.

(F) Effective Date of Changes

A new interest rate calculated in accordance with paragraphs 5(C) and 5(D) of this Note will become effective on the Change Date, unless the Change Date occurs less than 25 days after Lender has given the required notice. If the interest rate calculated in accordance with Paragraphs 5(C) and 5(D) of this Note decreased, but Lender failed to give timely notice of the decrease and applied a higher rate than the rate which should have been stated in a timely notice, then Lender shall recalculate the principal balance owed under this Note so it does not reflect any excessive interest.

6. BORROWER'S RIGHT TO PREPAY

A Borrower receiving monthly payments under the Loan Agreement has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty on the first day of any month. Otherwise, a Borrower has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty after giving Lender two weeks notice. Any amount of debt prepaid will first be applied to reduce the principal balance of the Second Note described in Paragraph 11 of this Note and then to reduce the principal balance of this Note.

All prepayments of the principal balance shall be applied by Lender as follows:

First, to that portion of the principal balance representing aggregate payments for mortgage insurance premiums;

Second, to that portion of the principal balance representing aggregate payments for servicing fees;

Third, to that portion of the principal balance representing accrued interest due under the Note; and

Fourth, to the remaining portion of the principal balance. A Borrower may specify whether a prepayment is to be credited to that portion of the principal balance representing monthly payments or the line of credit. If Borrower does not designate which portion of the principal balance is to be prepaid, Lender shall apply any partial prepayments to an existing line of credit or create a new line of credit.

7. IMMEDIATE PAYMENT IN FULL

(A) Death or Sale

Lender may require immediate payment in full of all outstanding principal and accrued interest if:

(i) A Borrower dies and the Property is not the principal residence of at least one surviving Borrower, or

(ii) A Borrower conveys all of his or her title to the Property and no other Borrower retains title to the Property in fee simple or on a leasehold interest as set forth in 24 CFR 206.45(a).

(B) Other Grounds

Lender may require immediate payment in full of all outstanding principal and accrued interest, upon approval by an authorized representative of the Secretary, if:

(i) The Property ceases to be the principal residence of a Borrower for reasons other than death and the Property is not the principal residence of at least one other Borrower;

(ii) For a period of longer than 12 consecutive months, a Borrower fails to physically occupy the Property because of physical or mental illness and the Property is not the principal residence of at least one other Borrower; or

(iii) An obligation of the Borrower under the Security Instrument is not performed.

(C) Payment of Costs and Expenses

If Lender has required immediate payment in full as described above, the debt enforced through sale of the Property may include costs and expenses, including reasonable and customary attorney's fees, associated with enforcement of this Note to the extent not prohibited by applicable law. Such fees and costs shall bear interest from the date of disbursement at the same rate as the principal of this Note.

(D) Trusts

Conveyance of a Borrower's interest in the Property to a trust which meets the requirements of the Secretary, or conveyance of a trust's interests in the Property to a Borrower, shall not be considered a conveyance for purposes of this Paragraph. A trust shall not be considered an occupant or be considered as having a principal residence for purposes of this Paragraph.

## 8. WAIVERS

Borrower waives the rights of presentment and notice of dishonor.

"Presentment" means the right to require Lender to demand payment of amounts due. "Notice of dishonor" means the right to require Lender to give notice to other persons that amounts due have not been paid.

#### 9. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to Borrower under this Note will be given by delivering it or by mailing it by first class mail to Borrower at the property address above or at a different address if Borrower has given Lender a notice of Borrower's different address.

Any notice that must be given to Lender under this Note will be given by first class mail to Lender at the address stated in Paragraph 4(B) or at an different address if Borrower is given a notice of that different address.

#### 10. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note only through sale of the Property.

#### 11. RELATIONSHIP TO SECOND NOTE

##### (A) Second Note

Because Borrower will be required to repay amounts which the Secretary may make to or on behalf of Borrower pursuant to Section 255(i)(1)(A) of the National Housing Act and the Loan Agreement, the Secretary has required Borrower to grant a Second Note to the Secretary.

##### (B) Relationship of Secretary Payments to this Note

Payments made by the Secretary shall not be included in the debt due under this Note unless:

(i) This Note is assigned to the Secretary; or

(ii) The Secretary accepts reimbursements by the Lender for all payments made by the Secretary.

If the circumstances described in (i) or (ii) occur, then all payments by the Secretary, including interest on the payments, shall be included in the debt.

##### (C) Effect on Borrower

Where there is no assignment or reimbursement as described in (B)(i) or (ii), and the Secretary makes payments to Borrower, then Borrower shall not:

(i) Be required to pay amounts owed under this Note until the Secretary has required payment in full of all outstanding principal and accrued interest under the Second Note held by the Secretary, notwithstanding anything to the contrary in Paragraph 7 of this Note; or

(ii) Be obligated to pay interest or shared appreciation under this Note at any time, whether accrued before or after the payments by the Secretary, and whether or not accrued interest has been included in the principal balance of this Note, notwithstanding anything to the contrary in Paragraphs 2 or 5 of this Note or any Allonge to this Note.

## 12. SHARED APPRECIATION /3

If Borrower has executed a Shared Appreciation Allonge, the covenants of the Allonge shall be incorporated into and supplement the covenants of this Note as if the Allonge were a part of this Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Note. /4, /5

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Borrower (SEAL)

## Footnotes for Model Adjustable Rate Note Form (Home Equity Conversion)

1. The Model Adjustable Rate Note Form is designed for mortgages with interest rates that adjust annually, subject to annual and lifetime caps on increases. If the mortgage has interest rates that adjust monthly subject only to a lifetime cap, the following modifications to the Model Adjustable Rate Note Form are mandatory:

(a) Change Paragraph 5(A) to read:

(A) Change Date

The interest rate may change on the first day of 19 , and on the first day of each succeeding month. "Change Date" means each date on which the interest rate could change.

(b) Change Paragraph 5(C) to read:

(C) Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest rate by adding a margin of percentage points ( %) to the current Index. /2 Subject to the limit stated in Paragraph 5(D) of this Note, this amount will be the new interest

rate until the next Change Date.

(c) Change Paragraph 5(D) to read:

(D) Limit on Interest Rate

The interest rate will never increase above \_\_\_\_\_ percent ( %).

2. If Lender intends to round the interest rate, the phrase "and rounding the sum to the nearest one-eighth of one percentage point (0.125%)" shall be added.

3. The paragraph may be omitted if Lender does not offer a shared appreciation mortgage.

4. Include any required or customary form of authentication.

5. The model note is a multistate form which requires adaption for the following jurisdictions:

(a) Alaska. Add the Borrower's Post Office address, if different from the property address.

(b) Kansas. Delete "including reasonable and customary attorney's fees" from Paragraph 7(C).

(c) Kentucky. Paragraph 7(C) should be changed to read: "If Lender has required immediate payment in full as described above, the debt enforced through sale of the Property may include \$500.00 for costs and expenses for enforcing this Note. Such costs and expenses shall bear interest from the date of disbursement at the same rate as the principal of this Note."

(d) Louisiana. Add the following text following the Borrower's signature lines:

"NE VARIETUR" for identification with a mortgage given before me on \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_

Notary qualified in \_\_\_\_\_ Parish, Louisiana.

(e) Puerto Rico. Mortgages and notes in Puerto Rico, together with any associated riders or allonges, shall have alternating English and Spanish lines so that the complete text of each document appears in both languages. Mortgagees should contact the HUD Caribbean Office to obtain model Puerto Rico documents that contain both languages and contain other adaptations of the regular model forms that have been approved by the Caribbean Office.

(f) Virginia. The first sentence of Paragraph 8 should be changed to



read: "Borrower and any other person who has obligations under this Note waive the right of presentment and notice of dishonor, and waive the homestead exemption."

After the Borrower's signature lines, add:

This is to certify that this is the Note described in and secured by a Deed of Trust dated \_\_\_\_\_, 19\_\_ on the Property located in \_\_\_\_\_, Virginia.

My Commission expires:

\_\_\_\_\_  
Notary Public

**APPENDIX 4 <TOP>**

MODEL SECOND MORTGAGE FORM  
(HOME EQUITY CONVERSION)  
[See Instructions Attached]

FHA Case No.

\_\_\_\_\_ [Space Above This Line For Recording Data] \_\_\_\_\_

SECOND MORTGAGE

THIS MORTGAGE ("Security Instrument" or "Second Security Instrument") is given on \_\_\_\_\_, 19\_\_ . The mortgagor is \_\_\_\_\_ whose address is \_\_\_\_\_ ("Borrower"). This Security Instrument is given to the Secretary of Housing and Urban Development, whose address is 451 Seventh Street, S.W., Washington, DC 20410 ("Lender" or "Secretary"). Borrower has agreed to repay to Lender amounts which Lender is obligated to advance, including future advances, under the terms of a Home Equity Conversion Loan Agreement dated the same date as this Security Instrument ("Loan Agreement"). The agreement to repay is evidenced by Borrower's Note dated the same date as this Security Instrument ("Second Note"). This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Second Note, with interest, and all renewals, extensions and modifications of the Note, up to a maximum principal amount of \_\_\_\_\_ Dollars (U.S. \$ \_\_\_\_\_); (b) the payment of all other sums, with interest, advanced under paragraph 5 to protect the security of this Security Instrument or otherwise due under the terms of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Second Note. For this purpose, Borrower does hereby mortgage, warrant, grant and convey to Lender, with power of sale, the following described property located in \_\_\_\_\_ County, Michigan:

which has the address of \_\_\_\_\_,  
[Street] [City] \_\_\_\_\_,  
[State] [Zip Code]

("Property Address");

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, rights, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seized of the estate hereby conveyed and has the right to mortgage, grant and convey the Property and that the Property is only encumbered by a First Security Instrument given by Borrower and dated the same date as this Security Instrument ("First Security Instrument"). Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. Payment of Principal and Interest. Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Second Note.

2. Payment of Property Charges. Borrower shall pay all property charges consisting of taxes, ground rents, flood and hazard insurance premiums, and special assessments in a timely manner, and shall provide evidence of payment to Lender, unless Lender pays property charges by withholding funds from monthly payments due to the Borrower or by charging such payments to a line of credit as provided for in the Loan Agreement. Lender may require Borrower to pay specified property charges directly to the party owed payment even though Lender pays other property charges as provided in this Paragraph.

3. Fire, Flood and Other Hazard Insurance. Borrower shall insure all improvements on the Property, whether now in existence or subsequently erected, against any hazards, casualties, and contingencies, including fire. This insurance shall be maintained in the amounts, to the extent and for the periods required by Lender. Borrower shall also insure all improvements on the Property, whether now in existence or subsequently erected, against loss by floods to the extent required by Lender. The insurance policies and any renewals shall be held by Lender and shall include loss payable clauses in favor of, and in a form acceptable to, Lender.

In the event of loss, Borrower shall give Lender immediate notice by mail. Lender may make proof of loss if not made promptly by Borrower. Each insurance company concerned is hereby authorized and directed to make payment for such loss to Lender, instead of to Borrower and Lender jointly. Insurance proceeds shall be applied to restoration or repair of the damaged

Property, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied first to the reduction of any indebtedness under the Second Note and this Security Instrument. Any excess insurance proceeds over an amount required to pay all outstanding indebtedness under the Second Note and this Security Instrument shall be paid to the entity legally entitled thereto.

In the event of foreclosure of this Security Instrument or other transfer of title to the Property that extinguishes the indebtedness, all right, title and interest of Borrower in and to insurance policies in force shall pass to the purchaser.

4. Occupancy, Preservation, Maintenance and Protection of the Property; Borrower's Loan Application; Leaseholds. Borrower shall occupy, establish, and use the Property as Borrower's principal residence after the execution of this Security Instrument and Borrower (or at least one Borrower, if initially more than one person are Borrowers) and shall continue to occupy the Property as Borrower's principal residence for the term of the Security Instrument. "Principal residence" shall have the same meaning as in the Loan Agreement.

Borrower shall not commit waste or destroy, damage or substantially change the Property or allow the Property to deteriorate, reasonable wear and tear excepted. Borrower shall also be in default if Borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the loan evidenced by the Note, including, but not limited to, representations concerning Borrower's

occupancy of the Property as a principal residence. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and fee title shall not be merged unless Lender agrees to the merger in writing.

5. Charges to Borrower and Protection of Lender's Rights in the Property. Borrower shall pay all governmental or municipal charges, fines and impositions that are not included in Paragraph 2. Borrower shall pay these obligations on time directly to the entity which is owed the payment. If failure to pay would adversely affect Lender's interest in the Property, upon Lender's request Borrower shall promptly furnish to Lender receipts evidencing these payments. Borrower shall promptly discharge any lien which has priority over this Security Instrument in the manner provided in Paragraph 12(c).

If Borrower fails to make these payments or the property charges required by Paragraph 2, or fails to perform any other covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, for condemnation or to enforce laws or regulations), then Lender may do and pay whatever is necessary to protect

the value of the Property and Lender's rights in the Property, including payment of taxes, hazard insurance and other items mentioned in Paragraph 2.

To protect Lender's security in the Property, Lender shall advance and charge to Borrower all amounts due to the Secretary for the Mortgage Insurance Premium as defined in the Loan Agreement as well as all sums due to the loan servicer for servicing activities as defined in the Loan Agreement. Any amounts disbursed by Lender under this Paragraph shall become an additional debt of Borrower as provided for in the Loan Agreement and shall be secured by this Security Instrument.

6. Inspection. Lender or its agent may enter on, inspect or make appraisals of the Property in a reasonable manner and at reasonable times provided that Lender shall give the Borrower notice prior to any inspection or appraisal specifying a purpose for the inspection or appraisal which must be related to Lender's interest in the Property. If the Property is vacant or abandoned or the loan is in default, Lender may take reasonable action to protect and preserve such vacant or abandoned Property without notice to the Borrower.

7. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property, or for conveyance in place of condemnation, shall be paid to Lender. The proceeds shall be applied first to the reduction of any indebtedness under the Second Note and this Security Instrument. Any excess proceeds over an amount required to pay all outstanding indebtedness under the Second Note and this Security Instrument shall be paid to the entity legally entitled thereto.

8. Fees. Lender may collect fees and charges authorized by the Secretary for the Home Equity Conversion Mortgage Insurance Program.

9. Grounds for Acceleration of Debt.

(a) Due and Payable. Lender may require payment in full of all sums secured by this Security Instrument if:

(i) A Borrower dies and the Property is not the principal residence of at least one surviving Borrower; or

(ii) All of a Borrower's title in the Property (or his or her beneficial interest in a trust owning all or part of the Property) is sold or otherwise transferred and no other Borrower retains title to the Property in fee simple or retains a leasehold under a lease for less than 99 years which is renewable or a lease having a remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest Borrower (or retaining a beneficial interest in a trust with such an interest in the Property); or

(iii) The Property ceases to be the principal residence of a Borrower for reasons other than death and the Property is

not the principal residence of at least one other Borrower;  
or

(iv) For a period of longer than 12 consecutive months, a Borrower fails to occupy the Property because of physical or mental illness and the Property is not the principal residence of at least one other Borrower; or

(v) An obligation of the Borrower under this Security Instrument is not performed.

(b) Notice to Lender. Borrower shall notify the Lender whenever any of the events listed in Paragraph 9(a)(ii)-(v) occur.

(c) Notice to Borrower. Lender shall notify Borrower whenever the loan becomes due and payable under Paragraph 9(a)(ii)-(v). Lender shall not have the right to commence foreclosure until Borrower has had 30 days after notice to either:

(i) Correct the matter which resulted in the Security Instrument coming due and payable; or

(ii) Pay the balance in full; or

(iii) Sell the Property for the lesser of the balance or 95% of the appraised value and apply the net proceeds of the sale toward the balance; or

(iv) Provide the Lender with a deed in lieu of foreclosure.

(d) Trusts. Conveyance of a Borrower's interest in the Property to a trust which meets the requirements of the Secretary, or conveyance of a trust's interests in the Property to a Borrower, shall not be considered a conveyance for purposes of this Paragraph 9. A trust shall not be considered an occupant or be considered as having a principal residence for purposes of this Paragraph 9.

10. No Deficiency Judgments. Borrower shall have no personal liability for payment of the debt secured by this Security Instrument. Lender may enforce the debt only through sale of the Property. Lender shall not be permitted to obtain a deficiency judgment against Borrower if the Security Instrument is foreclosed.

11. Reinstatement. Borrower has a right to be reinstated if Lender has required immediate payment in full. This right applies even after foreclosure proceedings are instituted. To reinstate this Security Instrument, Borrower shall correct the condition which resulted in the requirement for immediate

payment in full. Foreclosure costs and reasonable and customary attorney's fees and expenses properly associated with the foreclosure proceeding shall be added to the principal balance. Upon reinstatement by Borrower, this

Security Instrument and the obligations that it secures shall remain in effect as if Lender had not required immediate payment in full. However, Lender is not required to permit reinstatement if: (i) Lender has accepted reinstatement after the commencement of foreclosure proceedings within two years immediately preceding the commencement of a current foreclosure proceeding, (ii) reinstatement will preclude foreclosure on different grounds in the future, or (iii) reinstatement will adversely affect the priority of the Security Instrument.

## 12. Lien Status.

### (a) Modification.

Borrower agrees to extend this Security Instrument in accordance with this Paragraph 12(a). If Lender determines that the original lien status of the Security Instrument is jeopardized under state law (including but not limited to situations where the amount secured by the Security Instrument equals or exceeds the maximum principal amount stated or the maximum period under which loan advances retain the same lien priority initially granted to loan advances has expired) and state law permits the original lien status to be maintained for future loan advances through the execution and recordation of one or more documents, then Lender shall obtain title evidence at Borrower's expense. If the title evidence indicates that the property is not encumbered by any liens (except the First Security Instrument described in Paragraph 13(a), this Second Security Instrument and any subordinate liens that the Lender determines will also be subordinate to any future loan advances), Lender shall request the Borrower to execute any documents necessary to protect the lien status of future loan advances. Borrower agrees to execute such documents. If state law does not permit the original lien status to be extended to future loan advances, Borrower will be deemed to have failed to have performed an obligation under this Security Instrument.

### (b) Tax Deferral Programs.

Borrower shall not participate in a real estate tax deferral program, if any liens created by the tax deferral are not subordinate to this Security Instrument.

### (c) Prior Liens.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien or forfeiture of any part of the Property; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to all amounts

secured by this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

### 13. Relationship to First Security Instrument

(a) Second Security Instrument. In order to secure payments which the Secretary may make to or on behalf of Borrower pursuant to Section 255(i)(1)(A) of the National Housing Act and the Loan Agreement, the Secretary has required Borrower to execute a Second Note and this Second Security Instrument. Borrower also has executed a First Note and First Security Instrument.

(b) Relationship of First and Second Security Instruments. Payments made by the Secretary shall not be included in the debt under the First Note unless:

(i) The First Security Instrument is assigned to the Secretary; or

(ii) The Secretary accepts reimbursement by the holder of the First Note for all payments made by the Secretary.

If the circumstances described in (i) or (ii) occur, then all payments by the Secretary, including interest on the payments but excluding late charges paid by the Secretary, shall be included in the debt under the First Note.

(c) Effect on Borrower. Where there is no assignment or reimbursement as described in (b)(i) or (ii) and the Secretary makes payments to Borrower, then Borrower shall not:

(i) Be required to pay amounts owed under the First Note, or pay any rents and revenues of the Property under Paragraph 19 to the holder of the First Note or a receiver of the Property, until the Secretary has required payment in full of all outstanding principal and accrued interest under the Second Note; or

(ii) Be obligated to pay interest or shared appreciation under the First Note at any time, whether accrued before or after the payments by the Secretary, and whether or not accrued interest has been included in the principal balance under the First Note.

(d) No Duty of the Secretary. The Secretary has no duty to the holder of the First Note to enforce covenants of the Second Security Instrument or to take actions to preserve the value of the Property, even though the holder of the First Note may be unable to collect amounts owed under the First Note because of

restrictions in this Paragraph 13.

(e) Restrictions on Enforcement Notwithstanding anything else in this Security Instrument, the Borrower shall not be obligated to comply with the covenants hereof, and Paragraph 19 shall have no force and effect, whenever there is no outstanding balance under the Second Note.

14. Forbearance by Lender Not a Waiver. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

15. Successors and Assigns Bound; Joint and Several Liability. Borrower may not assign any rights or obligations under this Security Instrument or the Second Note, except to a trust that meets the requirements of the Secretary. Borrower's covenants and agreements shall be joint and several.

16. Notices. Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address all Borrowers jointly designate. Any notice to the Secretary shall be given by first class mail to the HUD Field Office with jurisdiction over the Property or any other address designated by the Secretary. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this Paragraph 16.

17. Governing Law; Severability. This Security Instrument shall be governed by Federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Security Instrument or the Second Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Second Note which can be given effect without the conflicting provision. To this end the provisions of this Security Instrument and the Second Note are declared to be severable.

18. Borrower's Copy. Borrower shall be given one conformed copy of the Note and this Security Instrument.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

19. Assignment of Rents. [Use this language unless prohibited by state law.] Borrower unconditionally assigns and transfers to Lender all the rents and revenues of the Property. Borrower authorizes Lender or Lender's agents to collect the rents and revenues and hereby directs each tenant of the Property to pay the rents to Lender or Lender's agents. However, prior to Lender's notice to Borrower of Borrower's breach of any covenant or agreement in the Security Instrument, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower. This assignment of rents constitutes an absolute assignment and not an assignment for additional security only.



If Lender gives notice of breach to Borrower: (a) all rents received by Borrower shall be held by Borrower as trustee for benefit of Lender only, to be applied to the sums secured by this Security Instrument; (b) Lender shall be entitled to collect and receive all of the rents of the Property; and (c) each tenant of the Property shall pay all rents due and unpaid to Lender or Lender's agent on Lender's written demand to the tenant.

Borrower has not executed any prior assignment of the rents and has not and will not perform any act that would prevent Lender from exercising its rights under this Paragraph 19, except as provided in the First Security Instrument.

Lender shall not be required to enter upon, take control of or maintain the Property before or after giving notice of breach to Borrower. However, Lender or a judicially appointed receiver may do so at any time there is a breach. Any application of rents shall not cure or waive any default or invalidate any other right or remedy of Lender. This assignment of rents of the Property shall terminate when the debt secured by this Security Instrument is paid in full.

20. Foreclosure Procedure. [For illustration only. Needs state adaptation as provided in the instructions attached.] If Lender requires immediate payment in full under Paragraph 9, Lender may invoke the power of sale and any other remedies provided in this Paragraph 20, including, but not limited to, reasonable attorney's fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall give notice of sale to Borrower in the manner provided in Paragraph 16. Lender shall publish and post the notice of sale, and the Property shall be sold in the manner prescribed by applicable law. Lender or its designee may purchase the Property at any sale. The proceeds of the sale shall be applied in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable attorney's fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

[Add any state-specific provisions in accordance with the instructions attached and HUD Handbook 4165.1 REV-1, Chapter 4.]

[Number as final paragraph.] Riders to this Security Instrument. If one or more riders are executed by Borrower and recorded together with this Security Instrument, the covenants of each such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Security Instrument as if the rider(s) were a part of this Security Instrument. [Check applicable box(es).]

Condominium Rider                       Planned Unit Development

Shared Appreciation Rider               Other [Specify]

BY SIGNING BELOW, Borrower accepts and agrees to the terms contained

in this Security Instrument and in any rider(s) executed by Borrower and recorded with it.

Witnesses:

\_\_\_\_\_ (SEAL)  
Borrower

\_\_\_\_\_ (SEAL)  
Borrower

\_\_\_\_\_ [Space Below This Line For  
Acknowledgement] \_\_\_\_\_

Instructions for Model Second Mortgage Form (Home Equity Conversion)

HUD requires that a security instrument follow the form and content of the approved FNMA/FHLMC security instrument for the jurisdiction, except where HUD has determined that differences are needed to reflect HUD policy and practice. The following explains those differences. Additional instructions are found at Chapter 4, HUD Handbook 4165.1 and Chapter 6, HUD Handbook 4235.1.

Language Preceding Uniform Covenants

Use FNMA/FHLMC language but:

- a. Add a box for the FHA Case No. as shown on the Model Form.
- b. For a Mortgage, delete the language beginning with "THIS MORTGAGE" or "THIS DEED OF TRUST" through "covenants and agreements under this Security Instrument and Note." Substitute the language shown on the Model Form. The phrase "up to a maximum principal amount of Dollars (U.S. \$ )" should be omitted in jurisdictions where there is no legal need to state the maximum principal amount in a mortgage or deed of trust. If the phrase is used, the blank should be completed with an amount equal to or greater than 150% of the maximum claim amount.
- c. For a Deed of Trust, follow the instructions in "b" above, except that the first three sentences of the Model Form must be further revised to read as follows:

This DEED OF TRUST ("Security Instrument" or "Second Security Instrument") is made on \_\_\_\_\_, 19 \_\_\_\_ . The grantor [or trustor] is \_\_\_\_\_ ("Borrower"). The trustee is [the HUD Field Office Manager or his designee] ("Trustee"). The beneficiary is the Secretary of Housing and Urban Development, whose address is 451 Seventh Street, S.W., Washington, D.C. 20410 ("Lender" or "Secretary").

- d. For Colorado deeds of trust, Georgia security deeds, and Louisiana mortgages the FNMA/FHLMC forms should be consulted for guidance

regarding the initial language of the Security Instrument, including language describing a note for Louisiana.

e. For Maine and New York in which FNMA and FHLMC use "plain English" forms, the format and language should be based on FNMA/FHLMC forms for other states provided that the language is in conformity with applicable law.

The Model Form uses the FNMA/FHLMC language for Michigan as an example. The form may include variations to the standard language that have been approved by FNMA and/or FHLMC.

#### Uniform Covenants

The form should designate the paragraphs preceding Paragraph 20 on foreclosure procedures as "Uniform Covenants". The text of these paragraphs must be used as presented in the Model Form without any change. FNMA/FHLMC language may not be substituted. If change is needed to meet requirements of state or local law or practice, written approval from HUD is needed before the change is made.

#### Non-Uniform Covenants

The form should designate the paragraphs beginning with Paragraph 19 on assignments of rents as "Non-Uniform Covenants."

a. The FNMA/FHLMC paragraph on foreclosure procedures will need adaptation to reflect HUD policy. The Model Form contains an adaptation of the FNMA/FHLMC language for Michigan as an example. Following the phrase "If Lender requires immediate payment in full under Paragraph 9" as shown in Paragraph 20 of the Model Form, the mortgage should use the foreclosure procedures paragraph of the current approved FNMA/FHLMC form (including language regarding payment of costs such as attorney's fees) as a guide with any necessary adaptation to conform to these instructions. Language in the FNMA/FHLMC paragraph regarding notice and acceleration should be omitted. For Maine and New York, Lenders should use foreclosure language based on these instructions and other FNMA/FHLMC forms that are not "plain English" forms provided that the language will authorize foreclosure in conformity with applicable law. The mortgage must include the Lender's right to a public sale of the Property, including a power of sale if legally permissible in the jurisdiction in which the property is located even if mortgages are usually foreclosed through a judicial proceeding.

b. The paragraphs following Paragraph 20 should contain provisions required to adapt the mortgage to the laws and practices of the particular jurisdiction in which the Property is located. The text of these paragraphs should be the same as the FNMA/FHLMC non-uniform covenants for the jurisdiction in which the Property is located. Changes to the FNMA/FHLMC paragraphs and additional material may be included if needed to conform to requirements of state law or practice. The paragraph entitled "Riders to this Security Instrument"

should be used as shown in the Model Form instead of as shown in the FNMA/FHLMC forms.

c. Any special language or notices required by applicable law should appear following the non-uniform covenants using the FNMA/FHLMC form as a guide.

Signatures, etc.

Use the FNMA/FHLMC format at the end of the mortgage except that:

a. Witness lines may be omitted if state and local law does not require witnesses for mortgages.

b. HUD does not require the Borrower's social security number to appear on the mortgage.

## **APPENDIX 5** [<TOP>](#)

### MODEL FIXED RATE SECOND NOTE FORM (HOME EQUITY CONVERSION)

FHA Case No.

#### SECOND NOTE

[Date]

[Property Address]

#### 1. DEFINITIONS

"Borrower" means each person signing at the end of this Note. "Secretary" or "Lender" means the Secretary of Housing and Urban Development or his or her authorized representatives.

#### 2. BORROWER'S PROMISE TO PAY; INTEREST

In return for amounts to be advanced by Lender to or for the benefit of Borrower under the terms of a Home Equity Conversion Loan Agreement dated \_\_\_\_\_, 19\_\_\_\_ ("Loan Agreement"), Borrower promises to pay to the order of Lender a principal amount equal to the sum of all Loan Advances made under the Loan Agreement with interest. Interest will be charged on unpaid principal at the rate of \_\_\_\_\_ percent ( \_\_\_\_ %) per year until the full amount of principal has been paid. Accrued interest shall be added to the principal balance as a Loan Advance at the end of each month.

#### 3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or similar security instrument that is dated the same date as this Note and called the "Security Instrument" or the "Second Security Instrument." The Security Instrument protects the Lender from losses which might result if

Borrower defaults under this Second Note. Borrower also executed a First Security Instrument and First Note when the Second Security Instrument and Second Note were executed.

#### 4. MANNER OF PAYMENT

##### (A) Time

Borrower shall pay all outstanding principal and accrued interest to Lender upon receipt of a notice by Lender requiring immediate payment in full, as provided in Paragraph 6 of this Note.

##### (B) Place

Payment shall be made at the Office of the Housing - FHA Comptroller, Director of Mortgage Insurance Accounting and Servicing, Department of Housing and Urban Development, 451 Seventh Street, S.W., Washington, DC 20410, or any other place designated by the Secretary in writing by notice to the Borrower.

##### (C) Limitation of Liability

Borrower shall have no personal liability for payment of this Note. Lender shall enforce the debt only through sale of the Property covered by the Security Instrument ("Property").

#### 5. BORROWER'S RIGHT TO PREPAY

A Borrower receiving monthly payments under the Loan Agreement has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty on the first day of any month. Otherwise, a Borrower has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty after giving Lender two weeks notice. Any amount of debt prepaid first will be applied to reduce the principal balance of this Note and then to reduce the principal balance of the First Note.

All prepayments of the principal balance shall be applied by Lender as follows:

First, to that portion of the principal balance representing aggregate payments for mortgage insurance premiums;

Second, to that portion of the principal balance representing aggregate payments for servicing fees;

Third, to that portion of the principal balance representing accrued interest due under the Note; and

Fourth, to the remaining portion of the principal balance. A Borrower may specify whether a prepayment is to be credited to that portion of the principal balance representing monthly payments or the line of credit. If

Borrower does not designate which portion of the principal balance is to be prepaid, Lender shall apply any partial prepayments to an existing line of credit or create a new line of credit.

#### 6. IMMEDIATE PAYMENT IN FULL

##### (A) Death or Sale

Lender may require immediate payment in full of all outstanding principal and accrued interest if:

(i) A Borrower dies and the Property is not the principal residence of at least one surviving Borrower, or

(ii) A Borrower conveys all of his or her title to the Property and no other Borrower retains title to the Property in fee simple or on a leasehold interest as set forth in 24 CFR 206.45(a).

##### (B) Other Grounds

Lender may require immediate payment in full of all outstanding principal and accrued interest, if:

(i) The Property ceases to be the principal residence of a Borrower for reasons other than death and the Property is not the principal residence of at least one other Borrower;

(ii) For a period of longer than 12 consecutive months, a Borrower fails to physically occupy the Property because of physical or mental illness and the Property is not the principal residence of at least one other Borrower; or

(iii) An obligation of the Borrower under the Security Instrument is not performed.

##### (C) Payment of Costs and Expenses

If Lender has required immediate payment in full, as described above, the debt enforced through sale of the Property may include costs and expenses including reasonable and customary attorney's fees for enforcing this Note to the extent not prohibited by applicable law. Such fees and costs shall bear interest from the date of disbursement at the same rate as the principal of this Note.

##### (D) Trusts

Conveyance of a Borrower's interest in the Property to a trust which meets the requirements of the Secretary, or conveyance of a trust's interests in the Property to a Borrower, shall not be considered a conveyance for purposes of this Paragraph. A trust shall not be considered an occupant or be considered as having a principal residence for purposes of this Paragraph.

## 7. WAIVERS

Borrower waives the rights of presentment and notice of dishonor. "Presentment" means the right to require Lender to demand payment of amounts due. "Notice of dishonor" means the right to require Lender to give notice to other persons that amounts due have not been paid.

## 8. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to Borrower under this Note will be given by delivering it or by mailing it by first class mail to Borrower at the property address above or at a different address if Borrower has given the Secretary a notice of Borrower's different address.

Any notice that must be given to the Secretary under this Note will be given by first class mail to the HUD Field Office with jurisdiction over the Property or any other address designated by the Secretary.

## 9. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note only through sale of the Property.

## 10. RELATIONSHIP TO FIRST NOTE

### (A) Second Note

Because Borrower will be required to repay amounts which the Secretary may make to or on behalf of Borrower pursuant to Section 255(i)(1)(A) of the National Housing Act and the Loan Agreement, the Secretary has required Borrower to grant this Second Note to the Secretary.

### (B) Relationship of Secretary Payments to First Note

All payments made by the Secretary shall be included in the debt due under this Note unless:

(i) The First Note is assigned by its holder to the Secretary;  
or

(ii) The Secretary accepts reimbursement by the holder of the First Note for all payments made by the Secretary.

If the circumstances described in (i) or (ii) occur, then all payments by the Secretary, including interest on the payments, but excluding late charges paid by the Secretary, shall be included in the debt under the First Note.

## 11. SHARED APPRECIATION /1

If Borrower has executed a Shared Appreciation Allonge, the covenants of the Allonge shall be incorporated into and supplement the covenants of this Note as if the Allonge were a part of this Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Note. /2, /3

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Borrower (SEAL)

Footnotes for Model Fixed Rate Second Note Form (Home Equity Conversion)

1. The paragraph may be omitted if Lender does not offer a shared appreciation mortgage.
2. Include any required or customary form of authentication.
3. The model note is a multistate form which requires adaptation for the following jurisdictions:
  - a. Alaska. Add the Borrower's Post Office address, if different from the property address.
  - b. Kansas. Delete "including reasonable and customary attorney's fees" from Paragraph 6(C).
  - c. Kentucky. Paragraph 6(C) should be changed to read:

If Lender has required immediate payment in full, as described above, the debt enforced through sale of the property may include \$500.00 for costs and expenses for enforcing this Note. Such costs and expenses shall bear interest from the date of disbursement at the same rate as the principal of this Note.

- d. Louisiana. Add the following text following the Borrower's signature lines:

"NE VARIETUR" for identification with a mortgage with a mortgage given before me on \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Notary qualified in \_\_\_\_\_  
Parish, Louisiana

- e. Puerto Rico. Mortgages and notes in Puerto Rico, together with any associated riders or allonges, shall have alternating English and Spanish lines so that the complete text of each document appears in both languages. Mortgagees should contact the HUD



Caribbean Office to obtain model Puerto Rico documents that contain both languages and contain other adaptations of the regular mortgage forms that have been approved by the Caribbean Office.

f. Virginia. The first sentence of Paragraph 7 should be changed to read:

"Borrowers under this Note waive the rights of presentment and notice of dishonor and waive the homestead exemption."

After the Borrower's signature lines, add:

This is to certify that this is the Note described in and secured by a Deed of Trust dated \_\_\_\_\_, 19\_\_\_\_, on the Property located in \_\_\_\_\_, Virginia.

My Commission expires:

\_\_\_\_\_  
Notary Public

## **APPENDIX 6** [<TOP>](#)

### MODEL ADJUSTABLE RATE SECOND NOTE FORM

#### (HOME EQUITY CONVERSION)

FHA Case No.

#### ADJUSTABLE RATE SECOND NOTE

[Date]

[Property Address]

#### 1. DEFINITIONS

"Borrower" means each person signing at the end of this Note. "Secretary" or Lender means the Secretary of Housing and Urban Development or his or her authorized representatives.

#### 2. BORROWER'S PROMISE TO PAY; INTEREST

In return for amounts to be advanced by Lender to or for the benefit of Borrower under the terms of a Home Equity Conversion Loan Agreement dated \_\_\_\_\_, 19\_\_\_\_ ("Loan Agreement"), Borrower promises to pay to the order of Lender a principal amount equal to the sum of all Loan Advances made by Lender under the Loan Agreement with interest. Interest will be charged on unpaid principal at the rate of \_\_\_\_\_ percent (\_\_\_\_%) per year until the full amount of principal has been paid. The interest rate may change in accordance with Paragraph 5 of this Note. Accrued

interest shall be added to the principal balance as a Loan Advance at the end of each month.

### 3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or similar security instrument that is dated the same date as this Note and called the "Security Instrument" or the "Second Security Instrument." The Security Instrument protects the Lender from losses which might result if Borrower defaults under this Note. Borrower also executed a First Security Instrument and First Note when the Second Security Instrument and this Note were executed.

### 4. MANNER OF PAYMENT

#### (A) Time

Borrower shall pay all outstanding principal and accrued interest to Lender upon receipt of a notice by Lender requiring immediate payment in full, as provided in Paragraph 7 of this Note.

#### (B) Place

Payment shall be made at the Office of the Housing-FHA Comptroller, Director of Mortgage Insurance Accounting and Servicing, 451 7th Street, S.W., Washington, DC 20410, or any such other place as Lender may designate in writing by notice to Borrower.

#### (C) Limitation of Liability

Borrower shall have no personal liability for payment of the debt. Lender shall enforce the debt only through sale of the Property covered by the Security Instrument ("Property").

### 5. INTEREST RATE CHANGES /1

#### (A) Change Date

The interest rate may change on the first day of \_\_\_\_\_, 19\_\_\_\_, and on that day of each succeeding year. "Change Date" means each date on which the interest rate could change.

#### (B) The Index

Beginning with the first Change Date, the interest rate will be based on an Index. "Index" means the weekly average yield on United States Treasury Securities adjusted to a constant maturity of one year, as made available by the Federal Reserve Board. "Current Index" means the most recent Index figure available 30 days before the Change Date. If the Index (as defined above) is no longer available, Lender will use as a new Index any index prescribed by the Secretary. Lender will give Borrower notice of the new Index.

### (C) Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest rate by adding a margin of percentage points ( %) to the current Index. /2 Subject to the limits stated in Paragraph 5(D) of this Note, this amount will be the new interest rate until the next Change Date.

### (D) Limits on Interest Rate Changes

The interest rate will never increase or decrease by more than two percentage points (2.0%) on any single Change Date. The interest rate will never be more than five percentage points (5.0%) higher or lower than the initial interest rate stated in Paragraph 2 of this Note.

### (E) Notice of Changes

Lender will give notice to Borrower of any change in the interest rate. The notice must be given at least 25 days before the new interest rate takes effect, and must set forth (i) the date of the notice, (ii) the Change Date, (iii) the old interest rate, (iv) the new interest rate, (v) the Current Index and the date it was published, (vi) the method of calculating the adjusted interest rate, and (vii) any other information which may be required by law from time to time.

### (F) Effective Date of Changes

A new interest rate calculated in accordance with paragraphs 5(C) and 5(D) of this Note will become effective on the Change Date, unless the Change Date occurs less than 25 days after Lender has given the required notice. If the interest rate calculated in accordance with Paragraphs 5(C) and 5(D) of this Note decreased, but Lender failed to give timely notice of the decrease and applied a higher rate than the rate which should have been stated in a timely notice, then Lender shall recalculate the principal balance owed under this Note so it does not reflect any excessive interest.

## 6. BORROWER'S RIGHT TO PREPAY

A Borrower receiving monthly payments under the Loan Agreement has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty on the first day of any month. Otherwise, a Borrower has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty after giving Lender two weeks notice. Any amount of debt prepaid will first be applied to reduce the principal balance of this Note and then to reduce the principal balance of the First Note.

All prepayments of the principal balance shall be applied by Lender as follows:

First, to that portion of the principal balance representing

aggregate payments for mortgage insurance premiums;

Second, to that portion of the principal balance representing aggregate payments for servicing fees;

Third, to that portion of the principal balance representing accrued interest due under the Note; and

Fourth, to the remaining portion of the principal balance. A Borrower may specify whether a prepayment is to be credited to that portion of the principal balance representing monthly payments or the line of credit. If Borrower does not designate which portion of the principal balance is to be prepaid, Lender shall apply any partial prepayments to an existing line of credit or create a new line of credit.

## 7. IMMEDIATE PAYMENT IN FULL

### (A) Death or Sale

Lender may require immediate payment in full of all outstanding principal and accrued interest if:

(i) A Borrower dies and the Property is not the principal residence of at least one surviving Borrower, or

(ii) A Borrower conveys all of his or her title to the Property and no other Borrower retains title to the Property in fee simple or on a leasehold interest as set forth in 24 CFR 206.45(a).

### (B) Other Grounds

Lender may require immediate payment in full of all outstanding principal and accrued interest, upon approval by an authorized representative of the Secretary, if:

(i) The Property ceases to be the principal residence of a Borrower for reasons other than death and the Property is not the principal residence of at least one other Borrower;

(ii) For a period of longer than 12 consecutive months, a Borrower fails to physically occupy the Property because of physical or mental illness and the Property is not the principal residence of at least one other Borrower; or

(iii) An obligation of the Borrower under the Security Instrument is not performed.

### (C) Payment of Costs and Expenses

If Lender has required immediate payment in full as described above, the debt enforced through sale of the Property may include costs and expenses, including reasonable and customary attorney's

fees, associated with enforcement of this Note. Such fees and costs shall bear interest from the date of disbursement at the same rate as the principal of this Note.

(D) Trusts

Conveyance of a Borrower's interest in the Property to a trust which meets the requirements of the Secretary, or conveyance of a trust's interests in the Property to a Borrower, shall not be considered a conveyance for purposes of this Paragraph. A trust shall not be considered an occupant or be considered as having a principal residence for purposes of this Paragraph.

8. WAIVERS

Borrower waives the rights of presentment and notice of dishonor. "Presentment" means the right to require Lender to demand payment of amounts due. "Notice of dishonor" means the right to require Lender to give notice to other persons that amounts due have not been paid.

9. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to Borrower under this Note will be given by delivering it or by mailing it by first class mail to Borrower at the property address above or at a different address if Borrower has given the Secretary a notice of Borrower's different address.

Any notice that must be given to the Secretary under this Note will be given by first class mail to the HUD Field Office with jurisdiction over the Property or any other address designated by the Secretary.

10. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note only through sale of the Property.

11. RELATIONSHIP TO FIRST NOTE

(A) Second Note

Because Borrower will be required to repay amounts which the Secretary may make to or on behalf of Borrower pursuant to Section 255(i)(1)(A) of the National Housing Act and the Loan Agreement, the Secretary has required Borrower to grant this Note to the Secretary.

(B) Relationship of Secretary Payments to First Note

Payments made by the Secretary shall be included in the debt due under this Note unless:

- (i) The First Note is assigned to the Secretary; or

(ii) The Secretary accepts reimbursements by the Lender for all payments made by the Secretary.

If the circumstances described in (i) or (ii) occur, then all payments by the Secretary, including interest on the payments, shall be included in the debt under the First Note.

(C) Notice of Interest Rate Adjustments

Borrower agrees that as long as the holder of the First Note continues to make Loan Advances, any notice of interest rate adjustment given to Borrower under Paragraph 5(E) of the First Note shall also be considered to be notice to Borrower under Paragraph 5(E) of this Note, so that the same interest rate shall apply for the First Note and this Note.

12. SHARED APPRECIATION /3

If Borrower has executed a Shared Appreciation Allonge, the covenants of the Allonge shall be incorporated into and supplement the covenants of this Note as if the Allonge were a part of this Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Note. /4, /5

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Borrower (SEAL)

Footnotes for Model Adjustable Rate Second Note Form (Home Equity Conversion)

1. The Model Adjustable Rate Second Note Form is designed for mortgages with interest rates that adjust annually, subject to annual and lifetime caps on increases. If the mortgage has interest rates that adjust monthly subject only to a lifetime cap, the following modifications to the Model Adjustable Rate Second Note Form are mandatory:

(a) Change Paragraph 5(A) to read:

(A)Change Date

The interest rate may change on the first day of \_\_\_\_\_, 19\_\_\_\_, and on the first day of each succeeding month. "Change Date" means each date on which the interest rate could change.

(b) Change Paragraph 5(C) to read:

(C) Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest rate by adding a margin of \_\_\_\_\_ percentage points ( \_\_\_\_\_ %) to the current Index. /2 Subject to the limit stated in Paragraph 5(D) of this Note, this amount will be the new interest rate until the next Change Date.

(c) Change Paragraph 5(D) to read:

(D) Limit on Interest Rate

The interest rate will never increase above \_\_\_\_\_ percent ( \_\_\_\_\_ %).

2. If Lender intends to round the interest rate, the phrase "and rounding the sum to the nearest one-eighth of one percentage point (0.125%)" shall be added.

3. The paragraph may be omitted if the holder of the First Note does not offer a shared appreciation mortgage.

4. Include any required or customary form of authentication.

5. The model note is a multistate form which requires adaption for the following jurisdictions:

(a) Alaska. Add the Borrower's Post Office address, if different from the property address.

(b) Kansas. Delete "including reasonable and customary attorney's fees" from Paragraph 7(C).

(c) Kentucky. Paragraph 7(C) should be changed to read: "If Lender has required immediate payment in full as described above, the debt enforced through sale of the Property may include \$500.00 for costs and expenses for enforcing this Note. Such cost and expenses shall bear interest from the date of disbursement at the same rate as the principal of this Note."

(d) Louisiana. Add the following text following the Borrower's signature lines:

"NE VARIETUR" for identification with a mortgage given before me on \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Notary qualified in \_\_\_\_\_ Parish, Louisiana.

(e) Puerto Rico. Mortgages and notes in Puerto Rico, together with any associated riders or allonges, shall have alternating English and Spanish lines so that the complete text of each document appears in both languages. Mortgagees should contact the HUD Caribbean Office to obtain model Puerto Rico documents that contain both languages and

contain other adaptations of the regular model forms that have been approved by the Caribbean Office.

(f) Virginia. The first sentence of Paragraph 8 should be changed to read: "Borrower and any other person who has obligations under this Note waive the right of presentment and notice of dishonor, and waive the homestead exemption."

After the Borrower's signature lines, add:

This is to certify that this is the Note described in and secured by a Deed of Trust dated \_\_\_\_\_, 19\_\_ on the Property located in \_\_\_\_\_, Virginia.

My Commission expires:

\_\_\_\_\_  
Notary Public

## **APPENDIX 7** [<TOP>](#)

FHA Case No.

### HOME EQUITY CONVERSION LOAN AGREEMENT

THIS AGREEMENT is made this day of \_\_\_\_\_, 19\_\_ ,  
among \_\_\_\_\_ ("Borrower"),  
\_\_\_\_\_ ("Lender") and the Secretary of Housing and Urban Development  
("Secretary").

#### Article 1 - Definitions

1.1. Expected Average Mortgage Interest Rate means the amount indicated on the attached payment plan (Exhibit 1). It is a constant interest rate used to calculate monthly payments to the Borrower throughout the life of the loan.

1.2. Loan Advances means all funds advanced from or charged to Borrower's account under conditions set forth in this Loan Agreement, whether or not actually paid to Borrower.

1.3. Loan Documents means the Note, Second Note, Security Instrument and Second Security Instrument.

1.4. Maximum Claim Amount means the lesser of the appraised value of the Property or the maximum dollar amount for an area established by the Secretary for a one-family residence under section 203(b)(2) of the National Housing Act (as adjusted where applicable under section 214 of the National Housing Act). Both the appraised value and the maximum dollar amount for the area shall be as of the date the conditional commitment is issued. Closing costs shall not be taken into account in determining appraised value.



1.5. Note means the promissory note signed by Borrower together with this Loan Agreement and given to Lender to evidence Borrower's promise to repay, with interest, Loan Advances by Lender or Lender's assignees.

1.6. Principal or Principal Balance means the sum of all Loan Advances made as of a particular date, including interest and mortgage insurance premiums.

1.7. Principal Limit means the amount indicated on the attached payment plan (Exhibit 1) when this Loan Agreement is executed, and increases each month for the life of the loan at a rate equal to one-twelfth of the sum of the Expected Average Mortgage Interest Rate and one-half of one percent. The Principal Limit is calculated by multiplying the Maximum Claim Amount by a factor supplied by the Secretary, which is based on the age of the youngest Borrower and the Expected Average Mortgage Interest Rate.

1.8. Principal Residence means the dwelling where the Borrower maintains his or her permanent place of abode, and typically spends the majority of the calendar year. A person may have only one principal residence at any one time. The Property shall be considered to be the Principal Residence of any Borrower who is temporarily or permanently in a health care institution as long as the Property is the Principal Residence of at least one other Borrower who is not in a health care institution.

1.9. Property means Borrower's property identified in the Security Instrument.

1.10. Second Note means the promissory note signed by Borrower together with this Loan Agreement and given to the Secretary to evidence Borrower's promise to repay, with interest, Loan Advances by the Secretary secured by the Second Security Instrument

1.11. Second Security Instrument means the mortgage, deed of trust, security deed or other security instrument which is signed by Borrower together with this Loan Agreement and which secures the Second Note.

1.12. Security Instrument means the mortgage, deed of trust, security deed or other security instrument which is signed by Borrower together with this Loan Agreement and which secures the Note.

## Article 2 - Loan Advances

2.1. General. Lender agrees to make Loan Advances under the conditions set forth in this Loan Agreement in consideration of the Note and Security Instrument given by Borrower on the same date as this Loan Agreement.

2.2. Initial Advances.

2.2.1. Loan Advances shall be used by Lender to pay, or reimburse Borrower for, closing costs listed in the Schedule of Closing Costs (Exhibit 2) attached to and made a part of this Loan Agreement, except that Loan Advances will only be used to pay origination fees in an amount not exceeding \$1,800.

2.2.2. Loan Advances shall be used by Lender to discharge the liens on the Property listed in the Schedule of Liens (Exhibit 2) attached to and made a part of this Loan Agreement.

2.2.3. Lender shall pay an initial Loan Advance to Borrower in the amount indicated on the attached payment plan (Exhibit 1).

2.2.4. Initial advances required by this Section 2.2. shall be made as soon as such advances are permitted by the applicable provisions of 12 CFR Part 226 (Truth in Lending) governing Borrower's right of rescission, but not before that time.

### 2.3. Set Asides.

2.3.1. Amounts set aside from the Principal Limit shall be considered Loan Advances to the extent actually disbursed or earned by Lender.

2.3.2. Lender shall initially set aside from the Principal Limit the amount indicated on the attached payment plan (Exhibit 1) for repairs to be made in accordance with a Repair Rider attached to and made a part of this Loan Agreement (Exhibit 3).

2.3.3. Lender shall initially set aside from the Principal Limit the amount indicated on the attached payment plan (Exhibit 1) to be applied to payments due for first year property charges consisting of taxes, hazard insurance, ground rents and assessments.

2.3.4. Lender shall initially set aside from the Principal Limit the amount indicated on the attached payment plan (Exhibit 1) to be applied to payment due for a fixed monthly charge for servicing activities of Lender or its servicer. Such servicing activities are necessary to protect Lender's interest in the Property. A servicing fee set aside, if any, is not available to the Borrower for any purpose, except to pay for loan servicing.

2.4. Charges and Fees. Borrower shall pay to Lender reasonable and customary charges and fees as permitted under 24 CFR 206.207 (a). Such amounts shall be considered Loan Advances when actually disbursed by Lender.

### 2.5. Monthly Payments.

2.5.1. Loan Advances paid directly to Borrower shall be made in equal monthly payments if requested by Borrower.

2.5.2. Monthly payments shall be calculated for either the term payment plan or the tenure payment plan, as requested by Borrower.

2.5.3. Monthly payments under the term payment plan are made

only during a term chosen by Borrower and shall be calculated so that the sum of (i) or (ii) added to (iii), (iv), (v) and (vi) shall be equal to or less than the Principal Limit at the end of the term:

(i) Initial Advances under Section 2.2., plus any initial servicing fee set aside under Subsection 2.3.4., or

(ii) The Principal Balance at the time of a change in payments under Sections 2.8. and 2.9. plus any remaining servicing fee set aside under Subsection 2.3.4., and

(iii) The portion of the Principal Limit set aside as a line of credit under Section 2.7., including any set asides for repairs (Subsection 2.3.2.) and first year property charges (Subsection 2.3.3.), and

(iv) All monthly payments due through the payment term, including funds withheld for payment of property charges under Section 2.10., and

(v) All mortgage insurance premiums, or monthly charges due to the Secretary in lieu of mortgage insurance premiums, which are due through the payment term (Subsection 2.13.), and

(vi) All interest through the payment term. The Expected Average Mortgage Interest Rate shall be used for this purpose.

2.5.4. Monthly payments under the tenure payment plan shall be calculated as in Subsection 2.5.3. as if there were a payment term with the number of months in the term equal to the sum of 100 minus the age of the youngest Borrower multiplied by 12, but payments shall continue until the loan becomes due and payable as provided in the Loan Documents.

2.5.5. Monthly payments shall be paid to Borrower on the first business day of a month.

2.5.6. If Borrower has requested monthly payments, payments shall be indicated on the attached payment plan (Exhibit 1). The payment plan may be changed by Borrower as provided in Sections 2.8. and 2.9.

2.6. Line of Credit without Monthly Payments.

2.6.1. Borrower can request Loan Advances under a line of credit payment plan in amounts and at times determined by Borrower, if the Principal Balance of the loan after the Loan Advance is made is less than or equal to the applicable Principal Limit, excluding any portion of the Principal Limit set aside under Sections 2.3.2. or 2.3.4.

2.6.2. Line of credit payments shall be paid to Borrower within five business days after Lender has received a written request for payment by Borrower.

2.6.3. Lender may specify a form for line of credit payment requests.

2.6.4. Lender shall provide Borrower with a statement of the account every time a line of credit payment is made. The statement shall include the current interest rate, the previous Principal Balance, the amount of the current Loan Advance, the current Principal Balance after the Loan Advance, and the current Principal Limit.

## 2.7. Line of Credit with Monthly Payments.

2.7.1. Borrower may receive monthly payments under either a term or tenure payment plan combined with a line of credit, as indicated on the attached payment plan (Exhibit 1).

2.7.2. Subsections 2.6.2., 2.6.3. and 2.6.4. apply to a line of credit combined with term or tenure payments.

2.7.3. If Borrower combines a line of credit with a term or tenure payment plan, the Principal Limit is divided into: (a) an amount for the line of credit payments, including repair and property charge set asides, (b) an amount for monthly payments which shall be calculated under Subsection 2.5.3. or 2.5.4. and (c) an amount for a servicing fee set aside, if required by Lender under Subsection 2.3.4. Amounts designated for line of credit payments and monthly payments increase independently at the same rate as the total Principal Limit increases under Section 1.7. Borrower can request Loan Advances in amounts and at times determined by Borrower, if the requested amount is less than or equal to the difference between (a) the Principal Limit applicable to the line of credit set aside and (b) the portion of the outstanding Principal Balance attributable to draws on the line of credit, including accrued interest and mortgage insurance premium or monthly charge due to the Secretary, but excluding any portion of the Principal Limit set aside under Subsections 2.3.2. and 2.3.4.

2.7.4. A Borrower receiving monthly payments in combination with a line of credit may prepay the outstanding mortgage balance in accordance with the terms of the Note.

## 2.8. Change in Payments Generally.

2.8.1. Whenever the Principal Balance of the loan is less than the Principal Limit, Borrower may change from any payment plan allowable under this Loan Agreement to another.

2.8.2. If Borrower requests that monthly payments be made after a change in payment plan, Lender shall recalculate future monthly payments in accordance with Subsections 2.5.3. or 2.5.4.

2.8.3. Lender may charge a fee not to exceed twenty dollars, whenever payments are recalculated and in any other circumstances in which Borrower is required to sign a form acknowledging a change in payment plan as provided in Subsection 2.8.5.

2.8.4. Loan Advances under a new payment plan shall be paid to Borrower in the same manner and within the time period required under Sections 2.5., 2.6. or 2.7.

2.8.5. Changes in the payment plan must be acknowledged by Borrower by signing a form containing the same information as the attached payment plan (Exhibit 1). Lender shall provide a copy of the completed form to Borrower.

## 2.9. Change in Payments Due to Initial Repairs.

2.9.1. If initial repairs after closing, made in accordance with the Repair Rider, are completed without using all of the repair set aside, Lender shall inform Borrower of the completion and the amount then available to the Borrower to be drawn under a line of credit.

2.9.2. If initial repairs after closing, made in accordance with the Repair Rider, cannot be fully funded from the repair set aside, any additional Loan Advances needed to complete repairs shall be made in the manner provided under Section 2.16.

2.9.3. If initial repairs are not completed when required by the Repair Rider, Borrower shall not request and Lender shall not make any further payments, except as needed to pay for repairs required by the Repair Rider and mandatory Loan Advances under Section 4.5. In order to complete the required repairs, Loan Advances shall be made first from the repair set aside, and then in the manner provided under Section 2.16.

## 2.10. Payment of Property Charges.

2.10.1 Borrower has elected to require Lender to use Loan Advances to pay property charges consisting of taxes, hazard insurance premiums, ground rents and special assessments if indicated on the attached payment plan (Exhibit 1). Borrower may change this election by notifying Lender and at that time Lender shall pay to Borrower any amounts withheld from the Loan Advances to pay property charges.

2.10.2. If Borrower has made the election under Subsection 2.10.1. and Borrower is receiving monthly payments, Lender shall withhold amounts from each monthly payment and use the amounts withheld to make timely payments of property charges. The

amounts withheld shall be calculated as provided in Subsection 2.10.3. Amounts withheld from monthly payments shall not be treated as Loan Advances and shall not bear interest except to the extent actually disbursed by Lender.

2.10.3. Lender shall withhold from each monthly payment an amount to pay (a) taxes and special assessments levied or to be levied against the Property, (b) leasehold payments or ground rents on the Property, and (c) premiums for fire, flood and other hazard insurance required by the Security Instrument. Each monthly withholding for items (a), (b) and (c) shall equal one-twelfth of the annual amounts, as reasonably estimated by Lender. The full annual amount for each item shall be paid by Lender before an item would become delinquent. Lender shall add the amounts for items (a), (b) and (c) to the Principal Balance when paid. If at any time the withholding for item (a), (b), or (c) exceeds the amount of actual property charges, Lender shall pay the excess withholding to Borrower and add it to the Principal Balance. If the total of the withholding for item (a), (b), or (c) is insufficient to pay the item when due, the amount necessary to make up the deficiency on or before the date the item becomes due shall be paid as a Loan Advance in the manner provided under Section 2.16.

2.10.4. If Borrower has made the election under Subsection 2.10.1. and Borrower is not receiving monthly payments, Lender shall make Loan Advances under the line of credit payment plan as needed to make timely payments of property charges, provided that no such Loan Advance shall exceed the amount permitted by Section 2.6.1.

2.10.5. If Borrower fails to pay the property charges in a timely manner, and has not elected to have Lender make the payments, Lender shall pay the property charges as a Loan Advance as required under Section 2.16. If a pattern of missed payments occurs, Lender may establish procedures to pay the property charges from Borrower's funds as if Borrower elected to have Lender pay the property charges.

2.10.6. Lender shall immediately notify any Borrower who has made the election under Subsection 2.10.1. whenever Lender determines that amounts available from monthly payments or line of credit payments will be insufficient to pay property charges.

2.11. Insurance and Condemnation Proceeds. If insurance or condemnation proceeds are paid to Lender, the Principal Balance shall be reduced by the amount of the proceeds not applied to restoration or repair of the damaged Property and the available loan funds shall be recalculated. At the same time, the Principal Limit also shall be reduced by the amount of the proceeds applied to reduce the Principal Balance.

2.12. Interest

2.12.1. Interest shall be calculated as provided in the Loan Documents.

2.12.2. Interest shall accrue daily and be added to the Principal Balance as a Loan Advance at the end of each month.

2.13. Mortgage Insurance Premium (MIP); Monthly Charge.

2.13.1. Monthly MIP shall be calculated as provided in 24 CFR Part 206. If the Security Instrument is held by the Secretary or if the Secretary makes Loan Advances secured by the Second Security Instrument, a monthly charge shall be due to the Secretary and shall be calculated in the same manner as MIP.

2.13.2. The full amount of monthly MIP or monthly charge, including any portion of the MIP retained by a Lender under 24 C.F.R. 206.109, shall be considered to be a Loan Advance to Borrower on the later of the first day of the month or the day Lender pays the MIP to the Secretary, if any MIP is due to the Secretary. In the event that the Note becomes due and payable or the Note is prepaid in full after the first day of the month, Lender may add the accrued MIP to the Principal Balance or the Secretary may add the accrued monthly charge to the Principal Balance.

2.14. Manner of Payment For purposes of this Section "Borrower" shall not include any person who signed this Loan Agreement but who has a Principal Residence different from the Property. Only a Borrower has a right to receive Loan Advances. Borrowers shall choose to receive Loan Advances by either electronic funds transfer to a bank account designated by all Borrowers or by check mailed to an address designated by all Borrowers, except where all Borrowers agree that payment should be made directly to a third party for the benefit of the Borrowers. Borrowers may change the manner of payment by notifying Lender.

2.15. Protection of Property.

2.15.1. If Borrower vacates or abandons the Property, or if Borrower is in default under the Security Instrument, then Lender may make reasonable expenditures to protect and preserve the Property and these expenditures will be considered Loan Advances as required under Section 2.16.

2.15.2. If Borrower fails to pay governmental or municipal charges, fines or impositions that are not Included in Section 2.10. or if there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, for condemnation or to enforce laws or regulations), then Lender may do and pay whatever is necessary to protect the value of the Property and Lender's rights in the Property. These expenditures will be considered Loan Advances as required under Section 2.16.

2.16. **Unscheduled Payments.** Loan Advances made pursuant to Sections 2.4., 2.9.2., 2.9.3., 2.10.3., 2.10.5., and 2.15. shall be made from a line of credit under Section 2.6. or 2.7. to the extent possible. If no line of credit sufficient to make the Loan Advances exists, any future monthly payments must be recalculated in accordance with Subsection 2.5.3. or 2.5.4. to create a line of credit sufficient to make the Loan Advances.

### Article 3 - Late Charge

3.1. **Amount Due.** Lender shall pay a late charge to Borrower for any late payment. If Lender does not mail or electronically transfer a scheduled monthly payment to Borrower on the first business day of the month or mail or electronically transfer a line of credit payment to Borrower within 5 business days of the date Lender received the request, the late charge shall be 10 percent of the entire amount that should have been paid to the Borrower for that month or as a result of that request. For each additional day that Lender fails to make payment, Lender shall pay interest on the late payment at the interest rate stated in

the Loan Documents. If the Loan Documents provide for an adjustable interest rate, the rate in effect when the late charge first accrues shall be used. In no event shall the total late charge and interest exceed five hundred dollars. Any late charge shall be paid from Lender's funds and shall not be added to the unpaid Principal Balance.

3.2. **Waiver.** The Secretary may waive a late charge where the Secretary determines that the late payment resulted from circumstances beyond Lender's control and that no act or omission of Lender contributed to the late payment. At the time Lender requests a waiver, Lender shall inform Borrower that a waiver of late charge has been requested from the Secretary and that the late charge will be sent to Borrower if the waiver is denied. If the Secretary denies the waiver, Lender shall pay to Borrower the late charge and interest that accrued from the date the payment was late until the date the waiver was requested.

### Article 4 - Termination of Lender's Obligation to Make Loan Advances

4.1. **Loan Due and Payable.** Lender shall have no obligation to make Loan Advances if Lender has notified Borrower that immediate payment in full to Lender is required under one or more of the Loan Documents unless and until the notice is rescinded by Lender.

4.2. **Loan Advances by Secretary.** If the Security Instrument has been assigned to the Secretary or the Secretary notifies Lender and Borrower that Loan Advances are secured by the Second Security Instrument, Lender shall have no further obligation to make Loan Advances under this Loan Agreement, unless the Secretary accepts later reimbursement by the Lender for all Loan Advances made, earned or disbursed by the Secretary. The Secretary may establish procedures for handling requests for payments and changes in payment plans during the interval between Lender's notification of intent to assign the Security Instrument to the Secretary and completion of the assignment. Borrower shall be informed of such procedures by Lender



and/or the Secretary, and Borrower shall comply with such procedures.

4.3. Lien Status Jeopardized. Lender shall have no obligation to make further Loan Advances if the Lender or the Secretary determines that the lien status of the Security Instrument or the Second Security Instrument is jeopardized under State laws as described in Paragraph 12(a) of the Security Instrument or Second Security Instrument and the lien status is not extended in accordance with Paragraph 12(a).

4.4. Bankruptcy. Lender shall have no obligation to make further Loan Advances on or following the date that a petition for bankruptcy of Borrower is filed.

4.5. Mandatory Loan Advances. Notwithstanding anything in Sections 4.1. through 4.4., all Loan Advances under Sections 2.10 (property charges), 2.12. (interest), 2.13. (MIP or monthly charge), 2.15. (protection of Property) or 2.3.4. (servicing fee) shall be considered mandatory Loan Advances by Lender.

4.6. Prepayment in Full. Lender shall not make Loan Advances if Borrower has paid the Note in full (or the Second Note, if the Secretary has assumed the Lender's rights and obligations under Article 5).

#### Article 5 - HUD Obligation

If the Lender has no further obligation to make payments to Borrower because of Section 4.2., the Secretary shall assume the rights and obligations of Lender under this Loan Agreement, except the Secretary shall not assume any obligation of paying flood, fire and other hazard insurance from Loan Advances. If the Secretary makes Loan Advances to Borrower under the Second Security Instrument, the

portion of the Principal Limit available for Loan Advances shall be the difference between the current Principal Limit and the combined Principal Balances on the Security Instrument less accrued interest and the Second Security Instrument.

#### Article 6 - Miscellaneous

6.1. Forbearance Not a Waiver. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

6.2. Successors and Assigns Bounds; Joint and Several Liability; Co-Signers. The covenants and agreements of this Loan Agreement shall bind and benefit the successors and assigns of Lender. An assignment made in accordance with the regulations of the Secretary shall fully relieve the Lender of its obligations under this Loan Agreement. Borrower may not assign any rights or obligations under this Loan Agreement. Borrower's covenants and agreements shall be joint and several.

6.3. Notices. Any notice to Borrower provided for in this Loan Agreement shall be given by delivering it or by mailing it by first class mail unless

applicable law requires use of another method. The notice shall be directed to the property address shown in the Security Instrument or any other address all Borrowers jointly designate. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any address Lender designates by notice to Borrower. Any notice to the Secretary shall be given by first class mail to the HUD Field Office with jurisdiction over the Property or any other place designated by the Secretary. Any notice provided for in this Loan Agreement shall be deemed to have been given to Borrower, Lender or the Secretary when given as provided in this Section.

6.4. Governing Law; Severability. This Loan Agreement shall be governed by Federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Loan Agreement conflicts with applicable law, such conflict shall not affect other provisions of this Loan Agreement which can be given effect without the conflicting provision. To this end the provisions of this Loan Agreement are declared to be severable.

6.5. Copies. Lender, Borrower and the Secretary shall each receive one original executed copy of this Loan Agreement when signed by the Secretary.

6.6. When Agreement Becomes Binding. This Loan Agreement shall bind Lender and Borrower when both Lender and Borrower have signed, whether or not the Secretary signs this Loan Agreement. This Loan Agreement shall bind the Secretary only when and if the Secretary has signed and a Mortgage Insurance Certificate is issued for the Security Instrument.

BY SIGNING BELOW the parties accept and agree to the terms contained in this Loan Agreement and the exhibits.

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
(Name of Lender)

By: \_\_\_\_\_ (SEAL)  
Secretary of Housing and Urban  
Development

By: \_\_\_\_\_ (SEAL)

Exhibit 1  
[Payment Plan is Appendix 11]

Exhibit 2

Schedule of Closing Costs

Item Amount

Schedule of Liens

Item Amount

Exhibit 3

[Repair Rider is Appendix 10]

**APPENDIX 8** [<TOP>](#)

REPAIR RIDER  
TO LOAN AGREEMENT

THIS REPAIR RIDER is made this        day of        , 19    , and is incorporated into and shall be deemed to supplement the Loan Agreement of the same date made by the undersigned Lender and the undersigned Borrower and the Secretary of Housing and Urban Development ("Secretary").

I. Lender's Promises

A. The Lender shall set aside                      Dollars (\$)        ) from the initial Principal Limit under the Loan Agreement to be used for the purpose of bringing the Property up to the property standards required by the Secretary by repairing:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

[Use an additional page if needed]

B. The Lender may charge a repair administration fee not to exceed the greater of fifty dollars (\$50) or 1.5% of the amounts advanced by Lender under this Repair Rider. This fee shall be added to the Principal Balance as each Loan Advance is made.

C. The Lender shall require one or more inspections by a HUD-approved inspector during the course of the repair work. The Lender shall not release any funds for work which is not complete and which is not approved by a HUD-approved inspector. The Lender certifies by executing this Repair Rider that the repairs which are funded under this Repair Rider will be completed in a manner to meet property standards required by the Secretary as determined by a HUD-approved inspector.

D. The Lender shall ensure that all mechanic's liens and materialmen's liens are released of record prior to an

advance of funds under this Repair Rider. The Lender may require the Borrower to obtain acknowledgment of payment and releases of lien from all contractors, subcontractors, and materialmen. Such acknowledgements and releases shall be in the form required by local laws and shall cover all work done, labor performed and materials (including equipment and fixtures) furnished for the project.

E. Until a HUD-approved inspector finds that all repairs required by Section LA of this Repair Rider have been completed in a satisfactory manner, the Lender shall not release funds in excess of (i) the total value of work satisfactorily completed, and (ii) the value of materials or equipment delivered to, and suitably stored at, the site but not yet incorporated in the work, less (iii) ten percent holdback, less (iv) prior advances under this Repair Rider.

F. Lender shall release the funds to Borrower and the contractor(s) jointly when permitted by Section I. C. of this Repair Rider and shall add the cost of the repairs to the Principal Balance under the Loan Agreement.

## II. Borrower's Promises

A. The Borrower will complete all repairs required by Section I.A. of this Repair Rider so that the Property meets the property standards required by the Secretary as determined by a HUD approved inspector.

B. Borrower shall cause work to begin on \_\_\_\_\_, 19 \_\_\_\_ . Borrower shall have work completed by \_\_\_\_\_, 19 \_\_\_\_ . Work is to be performed with reasonable diligence. Should Borrower fail to comply with these terms, until all repair work is satisfactorily completed Borrower shall not request and Lender shall not make any further payments under the Loan Agreement except for payment of repairs required by Section I.A. of this Repair Rider and Loan Advances required under Section 4.5 of the Loan Agreement.

C. Borrower will cause all improvements to be made in a workmanlike manner and in accordance with all applicable statutes and regulations. All licenses, permits and privileges required by local governmental authorities to rehabilitate the property will be obtained by the Borrower(s) or his/her contractor.

D. Borrower will furnish such records, contracts, bills and other documents relating to the Property and improvements as the Lender or the Secretary may require.

E. Without prior written consent of Lender, no materials, equipment, fixtures or any part of improvements financed with this loan shall be purchased or installed subject to

conditional sales contracts, security agreements, lease agreements or other arrangements whereby title is retained or the right is reserved or accrues to anyone to remove or repossess any item, or to consider it as personal property.

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Lender (SEAL)

\_\_\_\_\_  
Secretary of Housing and Urban Development (SEAL)

BY: \_\_\_\_\_ (SEAL)

## **APPENDIX 9** [<TOP>](#)

(Home Equity Conversion Mortgage)

### CONDOMINIUM RIDER

THIS CONDOMINIUM RIDER is made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to

("Lender") of the same date and covering the Property described in the Security Instrument and located at:

[Property Address]

The Property includes a unit in, together with an undivided interest in the common elements of a condominium project known as:

[Name of Condominium Project]

("Condominium Project"). If the owners association or other entity which acts for the Condominium Project ("Owners Association") holds title to property for the benefit or use of its members or shareholders, the Property also includes Borrower's interest in the Owners Association and the uses, proceeds and benefits of Borrower's interest.

**CONDOMINIUM COVENANTS.** In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. So long as the Owners Association maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring all property subject to the condominium documents,

including all improvements now existing or hereafter erected on the Property, and such policy is satisfactory to Lender and provides insurance coverage in the amounts, for the periods, and against the hazards Lender or the Secretary require, including fire and other hazards included within the term "extended coverage," and loss by flood, to the extent required by the Secretary, then: (i) Lender waives the provision in Paragraph 2 of this Security Instrument for the payment of the premium for hazard insurance on the Property, and (ii) Borrower's obligation under Paragraph 3 of this Security Instrument to maintain hazard insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy. Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage and of any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the Property, whether to the condominium unit or to the common elements, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application to the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.

B. Borrower promises to pay all dues and assessments imposed pursuant to the legal instruments creating and governing the Condominium Project.

C. If Borrower does not pay condominium dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph C shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this Condominium Rider.

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Borrower (SEAL)

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

**APPENDIX 10** [<TOP>](#)

(Home Equity Conversion Mortgage)

PLANNED UNIT DEVELOPMENT RIDER

THIS PLANNED UNIT DEVELOPMENT RIDER is made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and is incorporated into and shall be deemed to amend

and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to

("Lender") of the same date and covering the Property described in the Security Instrument and located at:

[Property Address]

The Property is a part of a planned unit development ("PUD") known as

[Name of Planned Unit Development]

PUD COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

A. So long as the Owners Association (or equivalent entity holding title to common areas and facilities), acting as trustee for the homeowners, maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring the property located in the PUD, including all improvements now existing or hereafter erected on the mortgaged premises, and such policy is satisfactory to Lender and provides insurance coverage in the amounts, for the periods, and against the hazards Lender or the Secretary require, including fire and other hazards included within the term "extended coverage," and loss by flood, to the extent required by the Secretary, then: (i) Lender waives the provision in Paragraph 2 of this Security Instrument for the payment of the premium for hazard insurance on the Property, and (ii) Borrower's obligation under Paragraph 3 of this Security Instrument to maintain hazard insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy. Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage and of any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the Property or to common areas and facilities of the PUD, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application to the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.

B. Borrower promises to pay all dues and assessments imposed pursuant to the legal instruments creating and governing the PUD.

C. If Borrower does not pay PUD dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph C shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and

Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this PUD Rider.

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Borrower (SEAL)

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

**APPENDIX 11 <TOP>**

(Home Equity Conversion Mortgage)

SHARED APPRECIATION RIDER

THIS SHARED APPRECIATION RIDER is made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to \_\_\_\_\_ ("Lender"), of the same date covering the Property described in the Security Instrument and located at:

[Property Address]

Notwithstanding anything to the contrary set forth in the Note, Borrower hereby agrees to the following:

1. At the time that the Note is due and payable or is paid in full, Borrower promises to pay Lender an additional amount of interest equal to twenty-five percent (25%) of the net appreciated value of the property, except that the total effective interest rate shall not exceed twenty percent (20%).
2. If the principal balance is less than the appraised value of the Property at origination, the Lender's share of appreciation shall be calculated by subtracting the appraised value of the Property at the time of the loan origination from the adjusted sales proceeds (i.e., sales proceeds less costs and capital improvements, but excluding liens) and multiplying by twenty-five percent (25%).
3. If the principal balance is greater than the appraised value at the origination but less than the adjusted sales proceeds, the Lender's share is calculated by subtracting the principal balance from the adjusted sales proceeds and multiplying by twenty-five percent (25%).
4. If the principal balance is greater than the adjusted sales proceeds, the net appreciated value is zero.
5. If there has been no sale or transfer at the time the Note is



satisfied, the "sales proceeds" in Paragraphs 2 through 4 shall be the current appraised value of the Property.

6. The effective interest rate shall be calculated by adding the amount of interest accrued in the twelve (12) month period prior to the sale of the Property or prepayment in full, to the Lender's share of the net appreciated value. The sum of the interest and Lender's appreciation share shall be divided by the sum of the Principal Balance at the beginning of the twelve (12) month period prior to sale or prepayment in full, plus the total of the monthly payments to or on behalf of the Borrower in the twelve (12) months prior to the sale or prepayment in full, to result in the effective interest rate not in excess of twenty percent (20%).

7. Borrower and Lender have a debtor-creditor relationship only. Nothing in this document is intended to create a partnership or joint venture.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Shared Appreciation Rider.

\_\_\_\_\_  
Borrower (SEAL)

\_\_\_\_\_  
Borrower (SEAL)

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

**APPENDIS 12 <TOP>**

(Home Equity Conversion Mortgage)

SHARED APPRECIATION ALLONGE

THIS SHARED APPRECIATION ALLONGE is an AMENDMENT made this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and is incorporated into and shall be deemed to amend and supplement the Note ("Note") of the same date given by the undersigned ("Borrower") to evidence Borrower's indebtedness to \_\_\_\_\_ ("Lender"), which indebtedness is secured by a Mortgage, Deed of Trust or Security Deed ("Security Instrument"), of the same date and covering the Property described in the Security Instrument and located at:

[Property Address]

Notwithstanding anything to the contrary set forth in the Note, Borrower hereby agrees to the following:

1. At the time that the Note is due and payable or is paid in full, Borrower promises to pay Lender an additional amount of interest equal to twenty-five percent (25%) of the appreciated value of the Property, except that the total effective interest rate shall not exceed twenty percent (20%).

2. If the principal balance is less than the appraised value of the Property at origination, the Lender's share of appreciation shall be calculated by subtracting the appraised value of the Property at the time of the loan origination from the adjusted sales proceeds (i.e., sales proceeds less costs and capital improvements, but excluding liens) and multiplying by twenty-five percent (25%).
3. If the principal balance is greater the appraised value at origination but less than the adjusted sales proceeds, the Lender's share is calculated by subtracting the principal balance from the adjusted sales proceeds and multiplying by twenty-five percent (25%).
4. If the principal balance is greater than the adjusted sales proceeds, the net appreciated value is zero.
5. If there has been no sale or transfer at the time the Note is satisfied, the "sales proceeds" in Paragraphs 2 and 4 shall be the current appraised value of the Property.
6. The effective interest rate shall be calculated by adding the amount of interest accrued in the twelve (12) month period prior to the sale of the Property or prepayment in full, to the Lender's share of the net appreciated value. The sum of the interest and Lender's appreciation share shall be divided by the sum of the Principal Balance at the beginning of the twelve (12) month period prior to sale or prepayment in full, plus the total of the monthly payments to or on behalf of the Borrower in the twelve (12) months prior to the sale or prepayment in full, to result in the effective interest rate not in excess of twenty percent (20%).
7. Borrower and Lender have a debtor-creditor relationship. Nothing in this document is intended to create a partnership or joint venture.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Amendment.

\_\_\_\_\_ (SEAL)  
Borrower

\_\_\_\_\_ (SEAL)  
Borrower

**APPENDIX 13** [<TOP>](#)

HOME EQUITY CONVERSION MORTGAGE PAYMENT PLAN

Date of Payment Plan: \_\_\_\_\_

FHA Case Number: \_\_\_\_\_

Name of Lender: \_\_\_\_\_

Name of Borrower(s)

Birthdate(s)

\_\_\_\_\_ / /

\_\_\_\_\_ / /

\_\_\_\_\_ / /

Expected Average Mortgage Interest Rate \_\_\_\_\_ %

1. Principal Limit \$ \_\_\_\_\_

Initial Payments (if completed at closing)

2. Closing Costs \$ \_\_\_\_\_

3. Discharge of Liens \$ \_\_\_\_\_

4. Outstanding Balance  
(if completed after closing) \$ \_\_\_\_\_

5. Loan Advance \$ \_\_\_\_\_

6. Servicing Fee Set Aside \$ \_\_\_\_\_

7. Total Deductions from Principal Limit  
(Lines 2 + 3 + 4 + 5 + 6) \$ \_\_\_\_\_

8. Principal Limit for Line of Credit \$ \_\_\_\_\_

Funds in Line of Credit Designated for:

9. Repairs \$ \_\_\_\_\_

10. First Year Property charges \$ \_\_\_\_\_

11. Outstanding Balance on Line of Credit  
from previous payments \$ \_\_\_\_\_

12. Total Deductions from Principal Limit for  
Line of Credit (Lines 9 + 10 + 11) \$ \_\_\_\_\_

13. Funds Available to Borrower in Line of Credit  
(Lines 8 - 12) \$ \_\_\_\_\_

14. Net Principal Limit (lines 1 - 7 - 9 - 10) \$ \_\_\_\_\_

15. Net Principal Limit Available for Monthly Payments  
(Lines 14 - 13) \$ \_\_\_\_\_

Scheduled Payments:

16. Term (Remaining) \_\_\_\_ Yrs. \_\_\_\_ Mos.  
or

17. Tenure \_\_\_\_ (check only one: term or tenure)

18. Monthly Payment (Total) \$ \_\_\_\_\_

19. Monthly Withholding (T & I) \$ \_\_\_\_\_

20. Net Monthly Payment (Lines 18 - 19) \$ \_\_\_\_\_

(For graduated monthly payments from a line of credit, see attached schedule.)

By signing below, the borrower(s) agree(s) that this document accurately describes the principal features of the current payment plan chosen by the borrower(s).

\_\_\_\_\_  
Signature Date \_\_\_\_\_

\_\_\_\_\_  
Signature Date \_\_\_\_\_

#### INSTRUCTIONS FOR COMPLETING THE BORROWER'S PAYMENT PLAN

The form on Pages 1 and 2 of this Appendix is completed both at closing and whenever the borrower chooses a different payment option or has his or her payment plan re-calculated. If the form is completed at closing, it must be attached to the Loan Agreement (Appendix 7).

Line 1. The borrower's current principal limit is entered on this line, whether the form is completed at closing or after the mortgage has closed. This figure is calculated according to the instructions in Chapter 5.

Line 2. Any closing costs to be financed by the mortgage are to be entered on this line when the mortgage is closed.

Line 3. The amount of any debts to be paid off at closing should be entered on this line. These debts include existing liens on the property and delinquent Federal debts. Liens on the property which will be subordinated should not be entered on this line.

Line 4. The current outstanding balance on the mortgage should be entered on this line if the form is completed after closing. The outstanding balance is the amount of any payments made to or on behalf of the borrower in form of line of credit or monthly payments plus any interest and fees that have accrued since those payments were made.

Line 5. The amount of any payment made to the borrower at closing, or as an unscheduled payment accompanying a payment plan change after closing, should be entered on this line.

Line 6. The amount necessary to pay for servicing costs for the life of the mortgage should be entered on this line. This amount is set aside from the principal limit at closing and a fee is disbursed from these funds monthly to cover servicing costs. Refer to Chapter 5 for instructions regarding servicing fee set aside calculations.

Line 7. The total of Lines 2 through 6 is entered on this line.

Line 8. The current principal limit for the borrower's line of credit should be entered on this line. At closing, this figure is simply the amount set aside by the borrower for the line of credit, including funds for repairs and property charges. After closing, this figure is the present value of any funds previously set aside for the line of credit, plus any additional funds the borrower wishes to set aside, or, minus any funds that the borrower wishes to remove from the line of credit to allot to monthly payments at the time the form is completed. Refer to Chapter 5 for calculations.

Line 9. The amount of funds necessary to pay for required repairs should be entered on this line. The amount can be found on the Repair Rider to the Loan Agreement completed at closing. If this form is completed after closing, the line should have any funds remaining for required repairs that have not been completed. Refer to Chapter 3 for repair requirements.

Line 10. The amount of any funds, owed by the borrower, necessary to pay for property charges to be assessed during the first year of the mortgage, that can not be collected after the mortgage has closed, should be entered on this line.

Line 11. The outstanding balance on the borrower's line of credit should be entered on this line. This figure is the sum of any payments made from the borrower's line of credit plus any interest that has accrued on those payments since they were made. The outstanding balance on any payments made from the line of credit must be kept separate from the outstanding balance on any other payments made from the mortgage.

Line 12. The total of Lines 9 through 11 should be entered on this line and is the amount that is deducted from the principal limit for the line of credit to determine the amount of funds available to the borrower from the line of credit.

Line 13. The difference between Lines 8 and 12 should be entered on this line. This is the net principal limit for the borrower's line of credit, or the amount available to the borrower from the line of credit at the time that this form is completed.

Line 14. The result of subtracting Lines 7, 9 and 10 from Line 1 is entered on this line and is the borrower's net principal limit, or the amount available to the borrower at the time the form is completed, through any combination of a cash advance, line of credit payment, or monthly payments.

Line 15. The difference between Lines 14 and 13 should be entered on this line. This figure is the net principal limit for monthly payments, or the amount of funds available to the borrower that can be paid out monthly.

Line 16. This line should be completed if the borrower wishes to receive monthly payments for a specified term. The term chosen by the borrower should be entered next to the selection. If the form is completed after closing, and the borrower is not changing the term previously chosen, the remaining time left in the term should be entered.

Line 17. This line should be completed if the borrower wishes to receive monthly payments for the rest of his or her life, as long as he or she remains in the home.

Line 18. The monthly payment calculated from the formula in Appendix 22 should be entered in this line. Refer to Chapter 5 for instructions regarding monthly payment calculations.

Line 19. The monthly amount necessary to cover one-twelfth (1/12) of the borrower's annual property charges should be entered on this line. This amount is deducted from the borrower's monthly payment but is not added to the outstanding balance until the charges are actually paid.

Line 20. The difference between Lines 18 and 19 should be entered on this line. This figure is the actual monthly payment that the borrower will receive.

If the lender and the borrower have established a graduated payment schedule from the funds available in the borrower's line of credit, that schedule should be attached to this form.

## **APPENDIX 14** [<TOP>](#)

### NOTICE TO THE BORROWER

### WHAT TO DO IN CASE OF LATE PAYMENT OR NON-PAYMENT BY YOUR LENDER

FHA Case No. \_\_\_\_\_

Date of Mortgage \_\_\_/\_\_\_/\_\_\_

Borrower Name(s)  
\_\_\_\_\_

Property Address  
\_\_\_\_\_

Mortgagee (Lender) Name  
\_\_\_\_\_

The U.S. Department of Housing and Urban Development (HUD) can help you if your lender fails to make payments to you on time. However, HUD can only help you if you follow these instructions.

## 1. INTRODUCTION

Your Home Equity Conversion Mortgage (HECM) was insured on \_\_\_\_\_ [date] under a special law, Section 255 of the National Housing Act, which makes HUD responsible for making any payments you have not received because the lender has defaulted. This document explains the steps HUD will take if the lender fails to make its payments to you. The term "mortgage" in this Notice includes the loan agreement between you, the lender, and HUD.

## 2. HUD OFFICE

Your local HUD Field Office is located at \_\_\_\_\_ . Any letter addressed to that office should include your FHA case number, which appears at the top of this notice. You should put "Home Equity Conversion Mortgage" on the envelope to ensure prompt and correct handling. Telephone calls should be made to the \_\_\_\_\_ Branch at \_\_\_\_\_ [telephone number]. You should inform the person answering the call that you are calling about your insured HECM. Please be prepared to provide your FHA case number.

## 3. METHOD OF PAYMENT

You may choose to receive payments through the "direct deposit" method of payment, where the lender automatically transfers money to your bank account, or you may receive checks through the mail. You may change your method of payment at any time during the loan.

## 4. PAYMENT OPTIONS

You can receive regular monthly payments, payments from a line of credit, or a combination of these payment options. You may change between these payment options at any time. Please follow the instructions in this Notice which apply to the payment option that you have chosen.

## 5. REGULAR MONTHLY PAYMENTS

If you have chosen to receive regular monthly payments, the lender must transfer the full payment to your bank account by the first day of each month, or place your check in the mail by that day. If you do not receive payment on time (allowing sufficient time for mail delivery of the check, if applicable), your first contact should be with the lender's representative assigned to handle your account. HUD requires your lender to keep you informed of a current telephone number and address for the representative assigned to your account. If you can not contact your lender or if the account representative can not help you, you should contact HUD.

HUD can help you with late payments in two circumstances. First, if the lender often makes payments which you receive late but before the 10th day of the month, and this problem continues after you tell the lender about it, HUD will contact the lender at your request and require the lender to improve its performance and pay any late charges as required by your Loan

Agreement. HUD will generally not be able to help with rare cases of late payment if the lender pays the late charge required by your Loan Agreement. Second, if any payment is not received before the 10th day of the month, you should immediately contact HUD (and the lender, if you have not done so). HUD will investigate the circumstances.

## 6. LINE OF CREDIT

If you have chosen to receive payments at your request from a line of credit, the lender must transfer the full amount requested, up to your principal limit, to your bank account or place your check in the mail within five business days after the lender receives your request. If you do not receive payment on time (allowing sufficient time for any mail delivery of your request to the lender, and any mail delivery of the check), your first contact should be with the lender representative assigned to handle your account. HUD requires your lender to keep you informed of a current telephone number and address for the representative assigned to your account. If you cannot contact your lender or if your account representative cannot help you, you should contact HUD.

HUD can help you with late payments in two circumstances. First, if the lender often makes payments which you receive after you expect to receive them but fewer than 10 days after you expect them, and this problem continues after you tell the lender about it, HUD will contact the lender and require the lender to improve its performance and pay late charges required by your Loan Agreement. HUD will generally not be able to help with rare cases of late payment if the lender pays the late charge required by your Loan Agreement. Second, if any payment has not been received 10 days after you expect to receive it, you should immediately contact HUD (and the lender, if you have not already done so). HUD will investigate the circumstances.

## 7. HUD INVESTIGATION OF LATE LENDER PAYMENT: HUD PAYMENTS

A HUD investigation will begin with an immediate request to the lender for explanation for the late payment(s). If the lender does not provide a satisfactory explanation to HUD within 15 days of the request, or provide all funds due to you (including any late charges), then HUD will begin arrangements to make payments to you. Your HUD Field Office will keep you informed regarding the likely date for resumption of payments. The initial HUD payment will be equal to the total of all payments not made by the lender, including an amount equivalent to any late charge due from the lender. Subsequent HUD payments will be made in accordance with the timing required by the mortgage.

## 8. PAYMENT OF TAXES AND INSURANCE, OR OTHER PROPERTY CHARGES

If you elected to have the lender pay taxes, hazard insurance premiums, and certain other charges against the property using funds in your loan account, and you learn that the lender has not paid these items on time, you should contact the lender's representative assigned to handle your account. If the lender does not correct the situation, you should contact the HUD office immediately.



## 9. HUD ASSUMPTION OF PAYMENT RESPONSIBILITY

Even if HUD is required to make some payments under the mortgage, we will try to have the lender resume making payments in accordance with the timing required by the mortgage. If HUD cannot arrange for the lender to resume payments, HUD will demand assignment of the mortgage from the lender. If the mortgage is assigned to HUD, you will deal with HUD as the new lender.

If the lender can not or will not assign the mortgage to HUD, you will receive no further payments from the lender under the first mortgage. No further interest or mortgage insurance premium will be added to the amount which you owe under the mortgage. HUD will then make all future payments under the terms of a second mortgage which you gave to HUD when you gave the first mortgage to the original lender. The first and second mortgages will have to be repaid at the same time (for example, when you sell your home). Since you will not owe any interest under the first mortgage, the total debt under the first and second mortgages will be less than the amount you would have owed under the mortgage if the lender had continued making payments.

HUD may allow the lender to resume making payments after HUD has made payments. If that happens, you will not owe anything to HUD but you will deal with the lender as if the lender had made all the payments under the first mortgage.

Signature of HUD Representative: \_\_\_\_\_

Title: \_\_\_\_\_

## **APPENDIX 15** [<TOP>](#)

### INSTRUCTIONS FOR COMPLETING THE UNIFORM RESIDENTIAL LOAN APPLICATION (URLA) AND ADDENDUM (FORM 92900-A)

#### 1. INSTRUCTIONS FOR COMPLETING THE URLA

HUD requires HECM lenders to use the Freddie Mac Form 65/Fannie Mae Form 1003-Uniform Residential Loan Application (URLA) with the HUD/VA Addendum, as the borrower's application for HUD mortgage insurance. The URLA should be completed according to the instructions contained on the form. All blocks on the form must be completed, with the following modifications:

#### SECTION I. TYPE OF MORTGAGE AND TERMS OF LOAN

Agency Case Number - The FHA case number should be entered followed by the appropriate Section of the Act ADP Code for HECMs listed below:

|                                  |     |
|----------------------------------|-----|
| Assignment/Fixed rate            | 911 |
| Assignment/Adjustable rate (ARM) | 912 |
| Shared Premium/Fixed rate        | 913 |
| Shared Premium/ARM               | 914 |

|                                |     |
|--------------------------------|-----|
| Shared Appreciation/Fixed rate | 915 |
| Shared Appreciation/ARM        | 916 |

To prevent confusion in the event the pages of the URLA become separated, we suggest that the HUD case number be inserted on all pages of the URLA.

Amount - The principal limit should be entered in this block.

Interest Rate - The Expected Average Mortgage Interest Rate ("expected rate") should be entered in this block.

No. of Months - This block should not be completed.

Amortization Type - Check "Other" and enter Section 255.

## SECTION II. PROPERTY INFORMATION AND PURPOSE OF LOAN

Purpose of Loan - This block should not be completed.

Property will be: - "Primary Residence" must be checked in this block.

Construction Loan Line - These blocks should not be completed.

Refinance Loan Line - These blocks should not be completed.

Source of Down Payment, Settlement Charges, and/or Subordinate Financing - The source of any portion of the origination fee that exceeds the financed amount should be entered in this block, and identified as such.

## SECTION III. BORROWER INFORMATION

Dependents - The number of children should be entered here, regardless of their age or level of dependency. This data is being used to evaluate the program.

Former Address - These blocks should not be completed.

## SECTION IV. EMPLOYMENT INFORMATION

These blocks should not be completed.

## SECTION V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

Gross Monthly Income - Complete these blocks as completely as possible. Income from government sources should be listed as "Other" income.

Combined Monthly Housing Expense - These blocks should not be completed.

## SECTION VII. DETAILS OF TRANSACTION

Blocks a., c., e., g., h., i., j., k., l., m., o., should not be completed.

Block b. should only be completed if required repairs are to be done after

closing.

Block d. should include any existing liens on the subject property and any delinquent Federal debts.

Block f. should include all closing costs.

Block n. should include the initial MIP.

Block p. should only be completed if the borrower is contributing cash to the transaction.

## SECTION VIII. DECLARATIONS

Only blocks a., b., c., d., e., f., and l., should be completed.

## SECTION X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES

These blocks must be completed. If the borrower chooses not to furnish race or sex, Federal Regulations require the lender to note this information on the basis of visual observation or surname. This information is collected, in part, for the Home Mortgage Disclosure Act (HMDA).

## 2. INSTRUCTIONS FOR COMPLETING THE ADDENDUM

The HUD/VA Addendum (92900-A) consists of five (5) pages. Pages 1 and 2 contain statutory and regulatory information and certifications, and should be completed, signed and dated, and included in the case binder at the time of submission for firm commitment processing. Omit pages 3, 4 (Direct Endorsement lender's approval/certifications and borrower certification) and 5 (VA Commitment for Guaranty). A copy of the Addendum must be provided to the borrower. The following instructions should be followed when completing the Addendum:

### PART I - IDENTIFYING INFORMATION

Section of the Act (Block 4) - Enter the same code that follows the FHA case number in Section I of the URLA.

Loan Amount (Block 7) - The principal limit should be entered in this block.

Interest Rate (Block 8) - The Expected Average Mortgage Interest Rate ("expected rate") should be entered in this block.

Blocks 9, 10, 12a. and 12b. should not be completed.

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HUD/VA Addendum to Uniform Residential Loan Application

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**APPENDIX 16** <TOP>

CERTIFICATE OF BORROWER COUNSELING  
FOR

Name(s) of Borrower(s)

In order to obtain a Home Equity Conversion Mortgage insured by the Department of Housing and Urban Development (HUD), the borrower(s) is/are required by law to receive counseling by a HUD-approved counseling agency.

The counselor must discuss the following items with the borrower(s):

1. Options other than a Home Equity Conversion Mortgage that are available to the borrower(s), including other housing, social service, health and financial options.

2. Other home equity conversion options that are or may become available to the borrower(s), such as sale-leaseback financing, deferred payment loans, and property tax deferral.

3. The financial implications of entering into a Home Equity Conversion Mortgage.

4. A disclosure that a Home Equity Conversion Mortgage may have tax consequences, effect eligibility for assistance under Federal and State programs, and have an impact on the estate and heirs of the borrower(s).

I certify that the borrower(s) listed above have received counseling according to the requirements of this certificate.

\_\_\_\_\_  
Agency                                      Official                                      Date

I certify that I have received counseling according to the requirements of this certificate.

\_\_\_\_\_  
Borrower                                      Date

\_\_\_\_\_  
Borrower                                      Date

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**APPENDIX 17** [<TOP>](#)

Periodic Disclosure of Interest Rate Change  
for Home Equity Conversion Mortgage (HECM)  
(Suggested Form)

---

Lender Name

Date

---

Address

---

Telephone Number

---

Borrower(s) Name

---

Address

RE: NOTICE OF CHANGES IN YOUR INTEREST RATE ON YOUR ADJUSTABLE RATE  
HECM

Dear Borrower:

On \_\_\_\_\_ [date], the interest rate on your adjustable rate HECM  
will \_\_\_\_\_ [increase/decrease] from \_\_\_\_\_% to \_\_\_\_\_%.

Your present interest rate was based on an index value of \_\_\_\_\_%. To  
determine your new interest rate, we added the current index value of  
\_\_\_\_\_% as of \_\_\_\_\_ [date index was issued], to the agreed upon  
margin of \_\_\_\_\_% for a total of \_\_\_\_\_%. [This new rate has/hasn't been  
rounded to the nearest 1/8th percent, circle to indicate rounding, or not].

Your new interest rate of \_\_\_\_\_% may not be more than two percentage  
points higher or lower than your prior rate of \_\_\_\_\_%.\* The initial  
interest rate on your mortgage was \_\_\_\_\_%, which may not be increased  
beyond \_\_\_\_\_% during the life of the mortgage.

If you have any questions, please call \_\_\_\_\_ at the  
telephone number listed above.

Sincerely,

---

Note: If the annual Periodic Disclosure of Interest Rate Change is  
designed to include all the essential factors for calculation of



the new interest rate, a file copy should be sufficient to reflect the computation.

\* if applicable

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**APPENDIX 18** [<TOP>](#)

CHUMS INPUT WORKSHEET  
UNIFORM RESIDENTIAL LOAN APPLICATION AND ADDENDUM  
LOAN AND BORROWER DATA

FHA Case Number: \_\_\_\_\_

Type of Interest Rate: Fixed \_\_\_ ARM \_\_\_

If ARM: Monthly \_\_\_ Annual \_\_\_

Ten Year Treasury Rate: \_\_\_\_.

Margin: + \_\_\_\_.

Expected Rate: = \_\_\_\_.

Borrower: \_\_\_\_\_ Race/Nat Origin \_\_\_ Sex \_\_\_ Children \_\_\_

Borrower: \_\_\_\_\_ Race/Nat Origin \_\_\_ Sex \_\_\_ Children \_\_\_

Borrower: \_\_\_\_\_ Race/Nat Origin \_\_\_ Sex \_\_\_ Children \_\_\_

Subject Property:

Property Value \_\_\_\_\_

Closing Costs (Section VII., Block f.) \_\_\_\_\_

Required Repairs (Section VII., Block b.) \_\_\_\_\_

Existing Liens (Section VII., Block d.) \_\_\_\_\_

Borrower Financial Information:

Monthly Income (Section V.) \_\_\_\_\_

Available Assets (Section VI.) \_\_\_\_\_

Debts (non-R.E.) (Section VI.) \_\_\_\_\_

Real Estate Assets (Section VI.) \_\_\_\_\_

Real Estate Debts (Section VI.) \_\_\_\_\_

Reasons for Reject and Comments:

\_\_\_\_\_  
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**APPENDIX 19** [<TOP>](#)

HOME EQUITY CONVERSION MORTGAGE  
SHARED APPRECIATION WORKSHEET

A. Potential Share of Appreciation

1. Net sales proceeds: \_\_\_\_\_
2. House value at origination \_\_\_\_\_
3. Outstanding balance at pay-off \_\_\_\_\_
4. Enter greater of 2 or 3 \_\_\_\_\_
5. Net appreciated value (1 minus 4) \_\_\_\_\_
6. Multiply by appreciation margin                   x .25
7. Potential share of appreciation \_\_\_\_\_

B. Summary of Loan Activity During Pay-Off Year

- |  | Amount | Date  |
|--|--------|-------|
| 1. Outstanding balance one year<br>prior to pay-off date | _____  | _____ |
| 2. Payments to or on behalf<br>of borrower               | _____  |       |
| 3. Accrued interest during<br>pay-off year               | _____  |       |
| 4. Outstanding balance on<br>pay-off date                | _____  | _____ |

(Attach detailed print-out from MIP data system to verify totals.)

C. Actual Share of Appreciation

1. Outstanding balance on year  
prior to pay-off date (B. 1.) \_\_\_\_\_
2. Principal payments during  
pay-off year (B.2.) \_\_\_\_\_
3. Sum of 1. and 2. \_\_\_\_\_
4. Multiply by effective interest rate           x .20
5. Effective interest rate cap \_\_\_\_\_
6. Accrued interest during

- pay-off year (B.3.) \_\_\_\_\_
7. Subtract 6 from 5 \_\_\_\_\_
8. Actual share of appreciation  
(greater of A.7. or C.7.) \_\_\_\_\_
9. Outstanding balance on  
pay-off date (B.4.) \_\_\_\_\_
10. Outstanding balance with shared  
appreciation (8. plus 9.) \_\_\_\_\_

**APPENDIX 20** [<TOP>](#)

Factors for Determining Borrower's Principal Limit

Factor - Shared Premium Points

I n t e r e s t   R a t e

| Age | 7.000   | 7.125   | 7.250   | 7.375   | 7.500   | 7.625   | 7.750   | 7.875    |
|-----|---------|---------|---------|---------|---------|---------|---------|----------|
| 62  | .457-28 | .445-29 | .434-30 | .423-31 | .412-32 | .401-33 | .391-34 | .381-35  |
| 63  | .468-27 | .456-27 | .445-28 | .433-29 | .423-31 | .412-32 | .402-33 | .392-34  |
| 64  | .478-25 | .467-26 | .456-27 | .445-28 | .434-29 | .423-30 | .413-31 | .403-32  |
| 65  | .489-23 | .478-24 | .467-25 | .456-26 | .445-27 | .435-28 | .425-29 | .415-30  |
| 66  | .501-22 | .489-23 | .478-24 | .467-25 | .457-26 | .446-27 | .436-28 | .427-29  |
| 67  | .512-21 | .501-22 | .490-22 | .479-23 | .469-24 | .458-25 | .448-26 | .439-27  |
| 68  | .523-19 | .512-20 | .502-21 | .491-22 | .481-23 | .471-24 | .461-25 | .451-26  |
| 69  | .535-18 | .524-19 | .514-20 | .503-20 | .493-21 | .483-22 | .473-23 | .464-24  |
| 70  | .547-17 | .536-17 | .526-18 | .516-19 | .506-20 | .496-21 | .486-22 | .477-23  |
| 71  | .559-15 | .549-16 | .538-17 | .528-18 | .518-18 | .509-19 | .499-20 | .490-21  |
| 72  | .571-14 | .561-15 | .551-16 | .541-16 | .532-17 | .522-18 | .513-19 | .503-20  |
| 73  | .584-13 | .574-14 | .564-14 | .554-15 | .545-16 | .535-17 | .526-17 | .517-18  |
| 74  | .596-12 | .587-13 | .577-13 | .567-14 | .558-15 | .549-15 | .540-16 | .531-17  |
| 75  | .609-11 | .599-11 | .590-12 | .581-13 | .572-13 | .563-14 | .554-15 | .545-15  |
| 76  | .622-10 | .613-10 | .604-11 | .594-11 | .586-12 | .577-13 | .568-13 | .560-14  |
| 77  | .635-09 | .626-09 | .617-10 | .608-10 | .600-11 | .591-12 | .583-12 | .574-13  |
| 78  | .648-08 | .639-08 | .631-09 | .622-09 | .614-10 | .605-10 | .597-11 | .589-12  |
| 79  | .661-07 | .653-07 | .644-08 | .636-08 | .628-09 | .620-09 | .612-10 | .604-11  |
| 80  | .674-06 | .666-06 | .658-07 | .650-07 | .642-08 | .634-08 | .626-09 | .619-09  |
| 81  | .687-05 | .679-06 | .672-06 | .664-06 | .656-07 | .649-07 | .641-08 | .634-08  |
| 82  | .700-05 | .693-05 | .685-05 | .678-06 | .670-06 | .663-06 | .656-07 | .648-07  |
| 83  | .713-05 | .706-05 | .698-05 | .691-05 | .684-05 | .677-05 | .670-06 | .663-06  |
| 84  | .726-05 | .719-05 | .712-05 | .705-05 | .698-05 | .691-05 | .684-05 | .678-05  |
| 85  | .738-05 | .731-05 | .725-05 | .718-05 | .712-05 | .705-05 | .699-05 | .692-05* |
| 86  | .750-05 | .744-05 | .738-05 | .731-05 | .725-05 | .719-05 | .713-05 | .706-05* |
| 87  | .762-05 | .756-05 | .750-05 | .744-05 | .738-05 | .732-05 | .726-05 | .721-05* |
| 88  | .774-05 | .769-05 | .763-05 | .757-05 | .751-05 | .746-05 | .740-05 | .734-05* |
| 89  | .786-05 | .781-05 | .775-05 | .770-05 | .765-05 | .759-05 | .754-05 | .748-05* |
| 90  | .798-05 | .793-05 | .788-05 | .783-05 | .778-05 | .773-05 | .768-05 | .762-05* |
| 91  | .810-05 | .805-05 | .800-05 | .796-05 | .791-05 | .786-05 | .781-05 | .776-05* |

92 .822-05- .817-05- .813-05- .808-05- .804-05- .799-05- .795-05- .790-05-\*  
 93 .834-05- .830-05- .825-05- .821-05- .817-05- .813-05- .809-05- .805-05-\*  
 94 .846-05- .842-05- .838-05- .835-05- .831-05- .827-05- .823-05- .819-05-\*  
 95 .859-05- .856-05- .852-05- .849-05- .846-05- .842-05- .839-05- .835-05-\*  
 96 .859-05- .856-05- .852-05- .849-05- .846-05- .842-05- .839-05- .835-05-\*  
 97 .859-05- .856-05- .852-05- .849-05- .846-05- .842-05- .839-05- .835-05-\*  
 98 .859-05- .856-05- .852-05- .849-05- .846-05- .842-05- .839-05- .835-05-\*  
 99 .859-05- .856-05- .852-05- .849-05- .846-05- .842-05- .839-05- .835-05-\*

\* Indicates END-OF-LINE HYPHENS.

Factors for Determining Borrowers Principal Limit

Factor - Shared Premium Points

I n t e r e s t   R a t e

| Age | 8.000   | 8.125   | 8.250   | 8.375   | 8.500   | 8.625   | 8.750   | 8.875     |
|-----|---------|---------|---------|---------|---------|---------|---------|-----------|
| 62  | .371-36 | .361-37 | .352-39 | .343-40 | .335-41 | .326-42 | .318-43 | .310-45   |
| 63  | .382-35 | .373-36 | .363-37 | .354-38 | .346-39 | .337-40 | .329-42 | .321-43   |
| 64  | .393-33 | .384-34 | .375-35 | .366-36 | .357-38 | .348-39 | .340-40 | .332-41   |
| 65  | .405-31 | .396-33 | .386-34 | .377-35 | .369-36 | .360-37 | .352-38 | .344-39   |
| 66  | .417-30 | .407-31 | .398-32 | .389-33 | .381-34 | .372-35 | .364-36 | .356-37   |
| 67  | .429-28 | .420-29 | .411-30 | .402-31 | .393-32 | .384-33 | .376-34 | .368-36   |
| 68  | .442-27 | .432-28 | .423-29 | .414-30 | .406-31 | .397-32 | .389-33 | .381-34   |
| 69  | .454-25 | .445-26 | .436-27 | .427-28 | .419-29 | .410-30 | .402-31 | .394-32   |
| 70  | .467-23 | .452-24 | .449-25 | .441-26 | .432-27 | .424-28 | .415-29 | .407-30   |
| 71  | .481-22 | .472-23 | .463-24 | .454-25 | .446-26 | .437-27 | .429-28 | .421-29   |
| 72  | .494-20 | .485-21 | .477-22 | .468-23 | .460-24 | .451-25 | .443-26 | .435-27   |
| 73  | .508-19 | .499-20 | .491-21 | .482-21 | .474-22 | .466-23 | .458-24 | .450-25   |
| 74  | .522-18 | .514-18 | .505-19 | .497-20 | .489-21 | .481-22 | .473-23 | .465-24   |
| 75  | .537-16 | .528-17 | .520-18 | .512-19 | .503-19 | .496-20 | .488-21 | .480-22   |
| 76  | .551-15 | .543-16 | .535-16 | .527-17 | .519-18 | .511-19 | .503-20 | .495-20   |
| 77  | .566-14 | .558-14 | .550-15 | .542-16 | .534-16 | .526-17 | .519-18 | .511-19   |
| 78  | .521-12 | .573-13 | .565-14 | .557-14 | .550-15 | .542-16 | .535-17 | .527-17   |
| 79  | .596-11 | .588-12 | .581-12 | .573-13 | .565-14 | .558-14 | .551-15 | .544-16   |
| 80  | .611-10 | .604-11 | .596-11 | .589-12 | .581-12 | .574-13 | .567-14 | .560-14   |
| 81  | .626-09 | .619-09 | .612-10 | .604-10 | .597-11 | .590-12 | .583-12 | .576-13   |
| 82  | .641-08 | .634-08 | .627-09 | .620-09 | .613-10 | .606-10 | .599-11 | .593-11   |
| 83  | .656-06 | .649-07 | .642-07 | .636-08 | .629-08 | .622-09 | .616-09 | .609-10   |
| 84  | .671-05 | .664-06 | .658-06 | .651-06 | .645-07 | .638-07 | .632-08 | .625-08   |
| 85  | .686-05 | .679-05 | .673-05 | .667-05 | .660-06 | .654-06 | .648-06 | .642-07   |
| 86  | .700-05 | .694-05 | .688-05 | .682-05 | .676-05 | .670-05 | .664-05 | .658-05   |
| 87  | .715-05 | .709-05 | .703-05 | .697-05 | .691-05 | .686-05 | .680-05 | .674-05-* |
| 88  | .729-05 | .723-05 | .718-05 | .712-05 | .707-05 | .701-05 | .696-05 | .690-05-* |
| 89  | .743-05 | .738-05 | .732-05 | .727-05 | .722-05 | .717-05 | .711-05 | .706-05-* |
| 90  | .757-05 | .752-05 | .747-05 | .742-05 | .737-05 | .732-05 | .727-05 | .722-05-* |
| 91  | .772-05 | .767-05 | .762-05 | .757-05 | .753-05 | .748-05 | .743-05 | .739-05-* |
| 92  | .786-05 | .782-05 | .777-05 | .773-05 | .768-05 | .764-05 | .759-05 | .755-05-* |
| 93  | .800-05 | .796-05 | .792-05 | .788-05 | .784-05 | .780-05 | .776-05 | .772-05-* |
| 94  | .816-05 | .812-05 | .808-05 | .804-05 | .800-05 | .797-05 | .793-05 | .789-05-* |
| 95  | .832-05 | .829-05 | .825-05 | .822-05 | .818-05 | .815-05 | .812-05 | .808-05-* |

96 .832-05- .829-05- .825-05- .822-05- .818-05- .815-05- .812-05- .808-05-\*  
 97 .832-05- .829-05- .825-05- .822-05- .818-05- .815-05- .812-05- .808-05-\*  
 98 .832-05- .829-05- .825-05- .822-05- .818-05- .815-05- .812-05- .808-05-\*  
 99 .832-05- .829-05- .825-05- .822-05- .818-05- .815-05- .812-05- .808-05-\*

Factors for Determining Borrowers Principal Limit

Factor - Shared Premium Points

I n t e r e s t   R a t e

| Age | 9.000    | 9.125    | 9.250    | 9.375    | 9.500    | 9.625    | 9.750    | 9.875     |
|-----|----------|----------|----------|----------|----------|----------|----------|-----------|
| 62  | .302-46  | .294-47  | .287-48  | .280-50  | .273-50+ | .267-50+ | .260-50+ | .253-50+  |
| 63  | .313-44  | .305-45  | .298-46  | .291-48  | .284-49  | .277-50  | .270-50+ | .264-50+  |
| 64  | .324-42  | .316-43  | .309-45  | .302-46  | .295-47  | .288-48  | .281-50  | .275-50+  |
| 65  | .336-40  | .328-41  | .321-43  | .313-44  | .306-45  | .299-46  | .292-47  | .286-49   |
| 66  | .348-39  | .340-40  | .333-41  | .325-42  | .318-43  | .311-44  | .304-46  | .298-47   |
| 67  | .360-37  | .352-38  | .345-39  | .337-40  | .330-41  | .323-42  | .316-44  | .310-45   |
| 68  | .373-35  | .365-36  | .358-37  | .350-38  | .343-39  | .336-41  | .329-42  | .322-43   |
| 69  | .386-33  | .378-34  | .371-35  | .363-36  | .356-38  | .349-39  | .342-40  | .335-41   |
| 70  | .400-31  | .392-32  | .384-33  | .377-35  | .370-36  | .362-37  | .356-38  | .349-39   |
| 71  | .413-30  | .406-31  | .398-32  | .391-33  | .383-34  | .376-35  | .369-36  | .363-37   |
| 72  | .428-28  | .420-29  | .412-30  | .405-31  | .398-32  | .391-33  | .384-34  | .377-35   |
| 73  | .442-26  | .435-27  | .427-28  | .420-29  | .413-30  | .405-31  | .399-32  | .392-33   |
| 74  | .457-24  | .450-25  | .442-26  | .435-27  | .428-28  | .421-29  | .414-30  | .407-31   |
| 75  | .472-23  | .465-24  | .458-25  | .450-25  | .443-26  | .436-27  | .429-28  | .423-30   |
| 76  | .488-21  | .481-22  | .473-23  | .466-24  | .459-25  | .452-26  | .445-27  | .439-28   |
| 77  | .504-20  | .497-21  | .489-21  | .482-22  | .475-23  | .468-24  | .462-25  | .455-26   |
| 78  | .520-18  | .513-19  | .506-20  | .499-21  | .492-21  | .485-22  | .478-23  | .472-24   |
| 79  | .536-16  | .529-17  | .522-18  | .515-19  | .509-20  | .502-20  | .495-21  | .489-22   |
| 80  | .553-15  | .546-16  | .539-16  | .532-17  | .526-18  | .519-19  | .513-20  | .506-20   |
| 81  | .569-13  | .563-14  | .556-15  | .549-15  | .543-16  | .536-17  | .530-19  | .524-19   |
| 82  | .586-12  | .579-13  | .573-13  | .566-14  | .560-14  | .554-15  | .547-16  | .541-17   |
| 83  | .603-10  | .596-11  | .590-12  | .584-12  | .577-13  | .571-13  | .565-14  | .559-15   |
| 84  | .619-09  | .613-09  | .607-10  | .601-10  | .595-11  | .588-11  | .583-12  | .577-13   |
| 85  | .636-07  | .630-08  | .624-08  | .618-09  | .612-09  | .606-10  | .600-10  | .594-11   |
| 86  | .652-06  | .646-06  | .640-06  | .635-07  | .629-07  | .623-07  | .618-08  | .612-09   |
| 87  | .668-05- | .663-05- | .657-05  | .652-05  | .646-05  | .641-06  | .635-06  | .630-06   |
| 88  | .685-05- | .679-05- | .674-05- | .669-05- | .663-05- | .658-05- | .653-05- | .647-05-* |
| 89  | .701-05- | .696-05- | .691-05- | .685-05- | .680-05- | .675-05- | .670-05- | .665-05-* |
| 90  | .717-05- | .712-05- | .707-05- | .703-05- | .698-05- | .693-05- | .688-05- | .683-05-* |
| 91  | .734-05- | .729-05- | .724-05- | .720-05- | .715-05- | .711-05- | .706-05- | .701-05-* |
| 92  | .750-05- | .746-05- | .742-05- | .737-05- | .733-05- | .729-05- | .724-05- | .720-05-* |
| 93  | .767-05- | .763-05- | .759-05- | .755-05- | .751-05- | .747-05- | .743-05- | .739-05-* |
| 94  | .785-05- | .782-05- | .778-05- | .774-05- | .770-05- | .767-05- | .763-05- | .759-05-* |
| 95  | .805-05- | .801-05- | .798-05- | .795-05- | .791-05- | .788-05- | .785-05- | .781-05-* |
| 96  | .805-05- | .801-05- | .798-05- | .795-05- | .791-05- | .788-05- | .785-05- | .781-05-* |
| 97  | .805-05- | .801-05- | .798-05- | .795-05- | .791-05- | .788-05- | .785-05- | .781-05-* |
| 98  | .805-05- | .801-05- | .798-05- | .795-05- | .791-05- | .788-05- | .785-05- | .781-05-* |
| 99  | .805-05- | .801-05- | .798-05- | .795-05- | .791-05- | .788-05- | .795-05- | .781-05-* |

Factors for Determining Borrowers Principal Limit

Factor - Shared Premium Points

I n t e r e s t   R a t e

| Age | 10.000   | 10.125   | 10.250   | 10.375   | 10.500   | 10.625   | 10.750   | 10.875    |
|-----|----------|----------|----------|----------|----------|----------|----------|-----------|
| 62  | .247-50+ | .241-50+ | .235-50+ | .230-50+ | .224-50+ | .219-50+ | .214-50+ | .209-50+  |
| 63  | .258-50+ | .252-50+ | .246-50+ | .240-50+ | .234-50+ | .229-50+ | .224-50+ | .219-50+  |
| 64  | .268-50+ | .262-50+ | .256-50+ | .250-50+ | .245-50+ | .239-50+ | .234-50+ | .229-50+  |
| 65  | .280-50  | .273-50+ | .267-50+ | .261-50+ | .256-50+ | .250-50+ | .245-50+ | .239-50+  |
| 66  | .291-48  | .285-50  | .279-50+ | .273-50+ | .267-50+ | .261-50+ | .256-50+ | .250-50+  |
| 67  | .303-46  | .297-48  | .291-49  | .285-50  | .279-50+ | .273-50+ | .267-50+ | .262-50+  |
| 68  | .316-44  | .309-45  | .303-47  | .297-48  | .291-49  | .285-50  | .279-50+ | .274-50+  |
| 69  | .329-42  | .322-43  | .316-45  | .310-46  | .304-47  | .298-48  | .292-50  | .286-50+  |
| 70  | .342-40  | .336-42  | .329-43  | .323-44  | .317-45  | .311-46  | .305-47  | .299-49   |
| 71  | .356-38  | .349-39  | .343-41  | .337-42  | .331-43  | .325-44  | .319-45  | .313-47   |
| 72  | .370-36  | .364-37  | .357-38  | .351-40  | .345-41  | .339-42  | .333-43  | .327-44   |
| 73  | .385-34  | .378-35  | .372-36  | .366-38  | .360-39  | .353-40  | .348-41  | .342-42   |
| 74  | .400-32  | .394-33  | .387-34  | .381-36  | .375-37  | .369-38  | .363-39  | .357-40   |
| 75  | .416-30  | .409-31  | .403-33  | .397-34  | .390-35  | .384-36  | .378-37  | .372-38   |
| 76  | .432-29  | .425-29  | .419-31  | .413-32  | .407-33  | .400-34  | .394-35  | .389-36   |
| 77  | .448-27  | .442-28  | .436-29  | .429-30  | .423-31  | .417-32  | .411-33  | .405-34   |
| 78  | .465-25  | .459-26  | .453-27  | .446-28  | .440-29  | .434-30  | .428-31  | .422-31   |
| 79  | .482-23  | .476-24  | .470-25  | .464-26  | .458-27  | .452-28  | .446-29  | .440-30   |
| 80  | .500-21  | .494-22  | .487-23  | .481-24  | .475-25  | .469-25  | .463-26  | .458-27   |
| 81  | .517-19  | .511-20  | .505-21  | .499-22  | .493-23  | .487-23  | .481-24  | .476-25   |
| 82  | .535-17  | .529-18  | .523-19  | .517-20  | .511-20  | .505-21  | .500-22  | .494-23   |
| 83  | .553-15  | .547-16  | .541-17  | .535-17  | .529-18  | .524-19  | .518-20  | .512-20   |
| 84  | .571-13  | .565-14  | .559-15  | .553-15  | .548-16  | .542-17  | .537-17  | .531-18   |
| 85  | .589-11  | .583-12  | .577-12  | .572-13  | .566-13  | .561-14  | .555-15  | .550-16   |
| 86  | .607-09  | .601-09  | .596-10  | .590-10  | .585-11  | .579-12  | .574-12  | .569-13   |
| 87  | .624-07  | .619-07  | .614-08  | .608-08  | .603-08  | .598-09  | .593-09  | .588-10   |
| 88  | .642-05- | .637-05  | .632-05  | .627-05  | .622-06  | .617-06  | .612-07  | .607-07   |
| 89  | .660-05- | .655-05- | .650-05- | .645-05- | .640-05- | .636-05- | .631-05- | .626-05-* |
| 90  | .678-05- | .674-05- | .669-05- | .664-05- | .659-05- | .655-05- | .650-05- | .646-05-* |
| 91  | .697-05- | .692-05- | .688-05- | .683-05- | .679-05- | .674-05- | .670-05- | .665-05-* |
| 92  | .716-05- | .711-05- | .707-05- | .703-05- | .699-05- | .694-05- | .690-05- | .686-05-* |
| 93  | .735-05- | .731-05- | .727-05- | .723-05- | .719-05- | .715-05- | .711-05- | .707-05-* |
| 94  | .755-05- | .752-05- | .748-05- | .744-05- | .741-05- | .737-05- | .733-05- | .730-05-* |
| 95  | .778-05- | .774-05- | .771-05- | .768-05- | .764-05- | .761-05- | .758-05- | .755-05-* |
| 96  | .778-05- | .774-05- | .771-05- | .768-05- | .764-05- | .761-05- | .758-05- | .755-05-* |
| 97  | .778-05- | .774-05- | .771-05- | .768-05- | .764-05- | .761-05- | .758-05- | .755-05-* |
| 98  | .778-05- | .774-05- | .771-05- | .768-05- | .764-05- | .761-05- | .758-05- | .755-05-* |
| 99  | .778-05- | .774-05- | .771-05- | .768-05- | .764-05- | .761-05- | .758-05- | .755-05-* |

Factors for Determining Borrowers Principal Limit

Factor - Shared Premium Points

Interest Rate

| Age | 11.000   | 11.125   | 11.250   | 11.375   | 11.500   | 11.625   | 11.750   | 11.875    |
|-----|----------|----------|----------|----------|----------|----------|----------|-----------|
| 62  | .204-50+ | .199-50+ | .195-50+ | .190-50+ | .186-50+ | .182-50+ | .178-50+ | .174-50+  |
| 63  | .214-50+ | .209-50+ | .204-50+ | .200-50+ | .195-50+ | .191-50+ | .187-50+ | .183-50+  |
| 64  | .224-50+ | .219-50+ | .214-50+ | .209-50+ | .205-50+ | .200-50+ | .196-50+ | .192-50+  |
| 65  | .234-50+ | .229-50+ | .224-50+ | .219-50+ | .215-50+ | .210-50+ | .206-50+ | .202-50+  |
| 66  | .245-50+ | .240-50+ | .235-50+ | .230-50+ | .225-50+ | .221-50+ | .216-50+ | .212-50+  |
| 67  | .257-50+ | .251-50+ | .246-50+ | .241-50+ | .236-50+ | .232-50+ | .227-50+ | .223-50+  |
| 68  | .268-50+ | .263-50+ | .258-50+ | .253-50+ | .248-50+ | .243-50+ | .239-50+ | .234-50+  |
| 69  | .281-50+ | .276-50+ | .270-50+ | .265-50+ | .260-50+ | .255-50+ | .251-50+ | .246-50+  |
| 70  | .294-50  | .288-50+ | .283-50+ | .278-50+ | .273-50+ | .268-50+ | .263-50+ | .258-50+  |
| 71  | .307-48  | .302-49  | .297-50+ | .291-50+ | .286-50+ | .281-50+ | .276-50+ | .271-50+  |
| 72  | .321-45  | .316-47  | .310-48  | .305-49  | .300-50+ | .295-50+ | .290-50+ | .285-50+  |
| 73  | .336-43  | .330-44  | .325-46  | .319-47  | .314-48  | .309-50  | .304-50+ | .299-50+  |
| 74  | .351-41  | .345-42  | .340-44  | .334-45  | .329-46  | .324-47  | .319-49  | .314-50   |
| 75  | .367-39  | .361-40  | .355-41  | .350-43  | .345-44  | .339-45  | .334-46  | .329-47   |
| 76  | .383-37  | .377-38  | .372-39  | .366-40  | .361-42  | .355-42  | .350-44  | .345-45   |
| 77  | .399-35  | .394-36  | .388-37  | .383-38  | .377-39  | .372-40  | .367-42  | .361-42   |
| 78  | .417-33  | .411-34  | .405-35  | .400-36  | .394-37  | .389-38  | .384-39  | .379-40   |
| 79  | .434-30  | .428-31  | .423-33  | .417-33  | .412-35  | .407-36  | .401-37  | .396-38   |
| 80  | .452-28  | .446-29  | .441-30  | .435-31  | .430-32  | .424-33  | .419-34  | .414-35   |
| 81  | .470-26  | .464-27  | .459-28  | .453-29  | .448-30  | .443-31  | .438-32  | .432-33   |
| 82  | .488-24  | .483-25  | .477-25  | .472-26  | .467-27  | .461-28  | .456-29  | .451-30   |
| 83  | .507-21  | .502-22  | .496-23  | .491-24  | .485-25  | .480-26  | .475-27  | .470-27   |
| 84  | .526-19  | .520-20  | .515-20  | .510-21  | .505-22  | .499-23  | .494-24  | .489-25   |
| 85  | .545-16  | .539-17  | .534-18  | .529-18  | .524-19  | .519-20  | .514-21  | .509-22   |
| 86  | .564-13  | .558-14  | .553-15  | .548-15  | .543-16  | .538-17  | .533-17  | .529-18   |
| 87  | .583-10  | .578-11  | .573-11  | .568-12  | .563-13  | .558-13  | .553-14  | .548-14   |
| 88  | .602-07  | .597-08  | .592-08  | .587-09  | .582-09  | .578-10  | .573-10  | .568-11   |
| 89  | .621-05- | .616-05  | .612-05  | .607-05  | .602-06  | .598-06  | .593-06  | .589-07   |
| 90  | .641-05- | .636-05- | .632-05- | .627-05- | .623-05- | .618-05- | .614-05- | .610-05-* |
| 91  | .661-05- | .657-05- | .652-05- | .648-05- | .644-05- | .639-05- | .635-05- | .631-05-* |
| 92  | .682-05- | .678-05- | .673-05- | .669-05- | .665-05- | .661-05- | .657-05- | .653-05-* |
| 93  | .703-05- | .699-05- | .695-05- | .691-05- | .687-05- | .684-05- | .680-05- | .676-05-* |
| 94  | .726-05- | .722-05- | .719-05- | .715-05- | .711-05- | .708-05- | .704-05- | .701-05-* |
| 95  | .751-05- | .748-05- | .745-05- | .741-05- | .738-05- | .735-05- | .732-05- | .728-05-* |
| 96  | .751-05- | .748-05- | .745-05- | .741-05- | .738-05- | .735-05- | .732-05- | .728-05-* |
| 97  | .751-05- | .748-05- | .745-05- | .741-05- | .738-05- | .735-05- | .732-05- | .728-05-* |
| 98  | .751-05- | .748-05- | .745-05- | .741-05- | .738-05- | .735-05- | .732-05- | .728-05-* |
| 99  | .751-05- | .748-05- | .745-05- | .741-05- | .738-05- | .735-05- | .732-05- | .728-05-* |

Factors for Determining Borrowers Principal Limit

Factor - Shared Premium Points

Interest Rate

| Age | 12.000   | 12.125   | 12.250   | 12.375   | 12.500   | 12.625   | 12.750   | 12.875   |
|-----|----------|----------|----------|----------|----------|----------|----------|----------|
| 62  | .170-50+ | .166-50+ | .163-50+ | .159-50+ | .156-50+ | .152-50+ | .149-50+ | .146-50+ |
| 63  | .179-50+ | .175-50+ | .171-50+ | .167-50+ | .164-50+ | .161-50+ | .157-50+ | .154-50+ |

64 .188-50+ .184-50+ .180-50+ .176-50+ .173-50+ .169-50+ .166-50+ .162-50+  
65 .197-50+ .193-50+ .189-50+ .186-50+ .182-50+ .178-50+ .175-50+ .171-50+  
66 .208-50+ .203-50+ .199-50+ .195-50+ .192-50+ .188-50+ .184-50+ .181-50+  
67 .218-50+ .214-50+ .210-50+ .206-50+ .202-50+ .198-50+ .194-50+ .191-50+  
68 .230-50+ .225-50+ .221-50+ .217-50+ .213-50+ .209-50+ .205-50+ .201-50+  
69 .241-50+ .237-50+ .233-50+ .228-50+ .224-50+ .220-50+ .216-50+ .212-50+  
70 .254-50+ .249-50+ .245-50+ .240-50+ .236-50+ .232-50+ .228-50+ .224-50+  
71 .267-50+ .262-50+ .257-50+ .253-50+ .249-50+ .244-50+ .240-50+ .236-50+  
72 .280-50+ .275-50+ .271-50+ .266-50+ .262-50+ .257-50+ .253-50+ .249-50+  
73 .294-50+ .289-50+ .285-50+ .280-50+ .276-50+ .271-50+ .267-50+ .263-50+  
74 .309-50+ .304-50+ .299-50+ .295-50+ .290-50+ .285-50+ .281-50+ .277-50+  
75 .324-49 .319-50 .314-50+ .310-50+ .305-50+ .300-50+ .296-50+ .292-50+  
76 .340-46 .335-47 .330-49 .325-50 .321-50+ .316-50+ .311-50+ .307-50+  
77 .356-44 .351-45 .346-46 .342-47 .337-49 .332-50 .328-50+ .323-50+  
78 .373-41 .368-42 .363-43 .359-45 .354-46 .349-47 .344-48 .340-50  
79 .391-39 .386-40 .381-41 .376-42 .371-43 .367-45 .362-46 .357-47  
80 .409-36 .404-37 .399-39 .394-40 .389-41 .384-42 .380-43 .375-44  
81 .427-34 .422-35 .417-36 .412-37 .408-38 .403-39 .398-40 .393-41  
82 .446-31 .441-32 .436-33 .431-34 .426-35 .422-36 .417-37 .412-38  
83 .465-28 .460-29 .455-30 .450-31 .445-32 .441-33 .436-34 .431-35  
84 .484-25 .479-26 .474-27 .470-28 .465-29 .460-30 .455-31 .451-32  
85 .504-22 .499-23 .494-24 .489-25 .485-26 .480-27 .475-27 .471-28  
86 .524-19 .519-20 .514-20 .509-21 .505-22 .500-23 .495-23 .491-24  
87 .543-15 .539-16 .534-16 .529-17 .525-18 .520-18 .516-19 .511-20  
88 .564-11 .559-12 .554-12 .550-13 .545-13 .541-14 .536-14 .532-15  
89 .584-07 .580-08 .575-08 .571-08 .566-09 .562-09 .558-10 .553-10  
90 .605-05- .601-05- .596-05- .592-05 .588-05 .584-05 .579-05 .575-06  
91 .627-05- .622-05- .618-05- .614-05- .610-05- .606-05- .602-05- .598-05-\*  
92 .649-05- .645-05- .641-05- .637-05- .633-05- .629-05- .625-05- .621-05-\*  
93 .672-05- .668-05- .665-05- .661-05- .657-05- .653-05- .650-05- .646-05-\*  
94 .697-05- .694-05- .690-05- .687-05- .683-05- .680-05- .676-05- .673-05-\*  
95 .725-05- .722-05- .719-05- .715-05- .712-05- .709-05- .706-05- .703-05-\*  
96 .725-05- .722-05- .719-05- .715-05- .712-05- .709-05- .706-05- .703-05-\*  
97 .725-05- .722-05- .719-05- .715-05- .712-05- .709-05- .706-05- .703-05-\*  
98 .725-05- .722-05- .719-05- .715-05- .712-05- .709-05- .706-05- .703-05-\*  
99 .725-05- .722-05- .719-05- .715-05- .712-05- .709-05- .706-05- .703-05-\*

Factors for Determining Borrowers Principal Limit

Factor - Shared Premium Points

I n t e r e s t R a t e

Age 13.000 13.125 13.250 13.375 13.500 13.625 13.750 13.875

62 .143-50+ .140-50+ .137-50+ .134-50+ .132-50+ .129-50+ .127-50+ .124-50+  
63 .151-50+ .148-50+ .145-50+ .142-50+ .139-50+ .136-50+ .134-50+ .131-50+  
64 .159-50+ .156-50+ .153-50+ .150-50+ .147-50+ .144-50+ .141-50+ .139-50+  
65 .168-50+ .165-50+ .161-50+ .158-50+ .155-50+ .152-50+ .150-50+ .147-50+  
66 .177-50+ .174-50+ .171-50+ .167-50+ .164-50+ .161-50+ .158-50+ .155-50+  
67 .187-50+ .184-50+ .180-50+ .177-50+ .174-50+ .171-50+ .167-50+ .164-50+  
68 .198-50+ .194-50+ .190-50+ .187-50+ .184-50+ .180-50+ .177-50+ .174-50+  
69 .208-50+ .205-50+ .201-50+ .198-50+ .194-50+ .191-50+ .188-50+ .184-50+



70 .220-50+ .216-50+ .213-50+ .209-50+ .205-50+ .202-50+ .199-50+ .195-50+  
 71 .232-50+ .228-50+ .225-50+ .221-50+ .217-50+ .214-50+ .210-50+ .207-50+  
 72 .245-50+ .241-50+ .237-50+ .233-50+ .230-50+ .226-50+ .222-50+ .219-50+  
 73 .258-50+ .254-50+ .250-50+ .246-50+ .243-50+ .239-50+ .235-50+ .232-50+  
 74 .273-50+ .268-50+ .264-50+ .260-50+ .256-50+ .253-50+ .249-50+ .245-50+  
 75 .287-50+ .283-50+ .279-50+ .275-50+ .271-50+ .267-50+ .263-50+ .259-50+  
 76 .303-50+ .298-50+ .294-50+ .290-50+ .286-50+ .282-50+ .278-50+ .274-50+  
 77 .319-50+ .314-50+ .310-50+ .306-50+ .302-50+ .298-50+ .294-50+ .290-50+  
 78 .335-50+ .331-50+ .327-50+ .322-50+ .318-50+ .314-50+ .310-50+ .306-50+  
 79 .353-48 .348-49 .344-50+ .340-50+ .335-50+ .331-50+ .327-50+ .323-50+  
 80 .371-46 .366-47 .362-48 .357-49 .353-50 .349-50+ .345-50+ .340-50+  
 81 .389-43 .384-44 .380-45 .375-46 .371-47 .367-48 .363-50 .359-50+  
 82 .408-40 .403-41 .399-42 .394-43 .390-44 .386-45 .381-46 .377-47  
 83 .427-36 .422-37 .418-39 .413-39 .409-41 .405-42 .400-43 .396-44  
 84 .446-33 .441-34 .437-35 .433-36 .429-37 .424-38 .420-39 .416-40  
 85 .466-29 .462-30 .457-31 .453-32 .449-33 .444-34 .440-35 .436-36  
 86 .486-25 .482-26 .478-27 .473-28 .469-29 .465-30 .460-31 .456-32  
 87 .507-21 .503-22 .498-22 .494-23 .490-24 .485-25 .481-26 .477-27  
 88 .528-16 .523-16 .519-17 .515-18 .511-19 .507-20 .502-20 .498-21  
 89 .549-11 .545-11 .541-12 .537-13 .532-13 .528-14 .524-14 .520-15  
 90 .571-06 .567-06 .563-07 .559-07 .555-08 .551-08 .547-08 .543-09  
 91 .594-05- .590-05- .586-05- .582-05- .578-05- .574-05- .570-05- .566-05-\*  
 92 .617-05- .613-05- .610-05- .606-05- .602-05- .598-05- .595-05- .591-05-\*  
 93 .642-05- .639-05- .635-05- .631-05- .628-05- .624-05- .620-05- .617-05-\*  
 94 .669-05- .666-05- .662-05- .659-05- .656-05- .652-05- .649-05- .645-05-\*  
 95 .700-05- .696-05- .693-05- .690-05- .687-05- .684-05- .681-05- .678-05-\*  
 96 .700-05- .696-05- .693-05- .690-05- .687-05- .684-05- .681-05- .678-05-\*  
 97 .700-05- .696-05- .693-05- .690-05- .687-05- .684-05- .681-05- .678-05-\*  
 98 .700-05- .696-05- .693-05- .690-05- .687-05- .684-05- .681-05- .678-05-\*  
 99 .700-05- .696-05- .693-05- .690-05- .687-05- .684-05- .681-05- .678-05-\*

Factors for Determining Borrowers Principal Limit

Factor - Shared Premium Points

I n t e r e s t R a t e

Age 14.000 14.125 14.250 14.375 14.500 14.625 14.750 14.875

62 .122-50+ .119-50+ .117-50+ .115-50+ .113-50+ .111-50+ .109-50+ .107-50+  
 63 .129-50+ .126-50+ .124-50+ .122-50+ .119-50+ .117-50+ .115-50+ .113-50+  
 64 .136-50+ .134-50+ .131-50+ .129-50+ .126-50+ .124-50+ .122-50+ .120-50+  
 65 .144-50+ .141-50+ .139-50+ .136-50+ .134-50+ .132-50+ .129-50+ .127-50+  
 66 .153-50+ .150-50+ .147-50+ .145-50+ .142-50+ .140-50+ .137-50+ .135-50+  
 67 .162-50+ .159-50+ .156-50+ .153-50+ .151-50+ .148-50+ .145-50+ .143-50+  
 68 .171-50+ .168-50+ .165-50+ .162-50+ .160-50+ .157-50+ .154-50+ .152-50+  
 69 .181-50+ .178-50+ .175-50+ .172-50+ .169-50+ .167-50+ .164-50+ .161-50+  
 70 .192-50+ .189-50+ .186-50+ .183-50+ .180-50+ .177-50+ .174-50+ .171-50+  
 71 .203-50+ .200-50+ .197-50+ .194-50+ .191-50+ .188-50+ .185-50+ .182-50+  
 72 .215-50+ .212-50+ .209-50+ .206-50+ .202-50+ .199-50+ .196-50+ .193-50+  
 73 .228-50+ .225-50+ .221-50+ .218-50+ .215-50+ .212-50+ .208-50+ .205-50+  
 74 .241-50+ .238-50+ .234-50+ .231-50+ .228-50+ .224-50+ .221-50+ .218-50+  
 75 .256-50+ .252-50+ .248-50+ .245-50+ .241-50+ .238-50+ .235-50+ .231-50+

|    |          |          |          |          |          |          |          |           |
|----|----------|----------|----------|----------|----------|----------|----------|-----------|
| 76 | .270-50+ | .267-50+ | .263-50+ | .259-50+ | .256-50+ | .252-50+ | .249-50+ | .246-50+  |
| 77 | .286-50+ | .282-50+ | .278-50+ | .275-50+ | .271-50+ | .267-50+ | .264-50+ | .261-50+  |
| 78 | .302-50+ | .298-50+ | .294-50+ | .291-50+ | .287-50+ | .283-50+ | .280-50+ | .276-50+  |
| 79 | .319-50+ | .315-50+ | .311-50+ | .307-50+ | .304-50+ | .300-50+ | .296-50+ | .293-50+  |
| 80 | .336-50+ | .332-50+ | .328-50+ | .325-50+ | .321-50+ | .317-50+ | .313-50+ | .310-50+  |
| 81 | .354-50+ | .350-50+ | .346-50+ | .343-50+ | .339-50+ | .335-50+ | .331-50+ | .327-50+  |
| 82 | .373-49  | .369-50  | .365-50+ | .361-50+ | .357-50+ | .353-50+ | .349-50+ | .346-50+  |
| 83 | .392-45  | .388-46  | .384-48  | .380-49  | .376-50  | .372-50+ | .368-50+ | .365-50+  |
| 84 | .412-42  | .408-43  | .403-44  | .399-45  | .396-46  | .392-47  | .388-48  | .384-50   |
| 85 | .432-37  | .428-39  | .424-40  | .419-40  | .416-42  | .412-43  | .408-44  | .404-45   |
| 86 | .452-33  | .448-34  | .444-35  | .440-36  | .436-37  | .432-38  | .428-39  | .424-40   |
| 87 | .473-28  | .469-29  | .465-29  | .461-30  | .457-31  | .453-32  | .449-33  | .445-34   |
| 88 | .494-22  | .490-22  | .486-23  | .482-24  | .478-25  | .474-26  | .471-27  | .467-28   |
| 89 | .516-15  | .512-16  | .508-17  | .504-17  | .500-18  | .497-19  | .493-20  | .489-20   |
| 90 | .539-09  | .535-10  | .531-10  | .527-11  | .523-11  | .520-12  | .516-12  | .512-13   |
| 91 | .562-05- | .559-05- | .555-05  | .551-05  | .547-05  | .544-05  | .540-06  | .536-06   |
| 92 | .587-05- | .583-05- | .580-05- | .576-05- | .572-05- | .569-05- | .565-05- | .562-05-* |
| 93 | .613-05- | .610-05- | .606-05- | .603-05- | .599-05- | .596-05- | .592-05- | .589-05-* |
| 94 | .642-05- | .639-05- | .635-05- | .632-05- | .629-05- | .626-05- | .622-05- | .619-05-* |
| 95 | .675-05- | .672-05- | .669-05- | .666-05- | .663-05- | .660-05- | .657-05- | .654-05-* |
| 96 | .675-05- | .672-05- | .669-05- | .666-05- | .663-05- | .660-05- | .657-05- | .654-05-* |
| 97 | .675-05- | .672-05- | .669-05- | .666-05- | .663-05- | .660-05- | .657-05- | .654-05-* |
| 98 | .675-05- | .672-05- | .669-05- | .666-05- | .663-05- | .660-05- | .657-05- | .654-05-* |
| 99 | .675-05- | .672-05- | .669-05- | .666-05- | .663-05- | .660-05- | .657-05- | .654-05-* |

Factors for Determining Borrowers Principal Limit

Factor - Shared Premium Points

I n t e r e s t   R a t e

|     |          |          |          |          |          |          |          |          |
|-----|----------|----------|----------|----------|----------|----------|----------|----------|
| Age | 15.000   | 15.125   | 15.250   | 15.375   | 15.500   | 15.625   | 15.750   | 15.875   |
| 62  | .105-50+ | .103-50+ | .101-50+ | .099-50+ | .097-50+ | .096-50+ | .094-50+ | .093-50+ |
| 63  | .111-50+ | .109-50+ | .107-50+ | .105-50+ | .103-50+ | .102-50+ | .100-50+ | .098-50+ |
| 64  | .118-50+ | .116-50+ | .114-50+ | .112-50+ | .110-50+ | .108-50+ | .106-50+ | .104-50+ |
| 65  | .125-50+ | .123-50+ | .121-50+ | .119-50+ | .117-50+ | .115-50+ | .113-50+ | .111-50+ |
| 66  | .132-50+ | .130-50+ | .128-50+ | .126-50+ | .124-50+ | .122-50+ | .120-50+ | .118-50+ |
| 67  | .141-50+ | .138-50+ | .136-50+ | .134-50+ | .132-50+ | .130-50+ | .127-50+ | .125-50+ |
| 68  | .149-50+ | .147-50+ | .145-50+ | .142-50+ | .140-50+ | .138-50+ | .136-50+ | .133-50+ |
| 69  | .159-50+ | .156-50+ | .154-50+ | .151-50+ | .149-50+ | .147-50+ | .144-50+ | .142-50+ |
| 70  | .169-50+ | .166-50+ | .163-50+ | .161-50+ | .158-50+ | .156-50+ | .154-50+ | .151-50+ |
| 71  | .179-50+ | .176-50+ | .174-50+ | .171-50+ | .169-50+ | .166-50+ | .164-50+ | .161-50+ |
| 72  | .190-50+ | .188-50+ | .185-50+ | .182-50+ | .179-50+ | .177-50+ | .174-50+ | .172-50+ |
| 73  | .202-50+ | .199-50+ | .196-50+ | .194-50+ | .191-50+ | .188-50+ | .186-50+ | .183-50+ |
| 74  | .215-50+ | .212-50+ | .209-50+ | .206-50+ | .203-50+ | .200-50+ | .198-50+ | .195-50+ |
| 75  | .228-50+ | .225-50+ | .222-50+ | .219-50+ | .216-50+ | .213-50+ | .210-50+ | .208-50+ |
| 76  | .242-50+ | .239-50+ | .236-50+ | .233-50+ | .230-50+ | .227-50+ | .224-50+ | .221-50+ |
| 77  | .257-50+ | .254-50+ | .251-50+ | .247-50+ | .244-50+ | .241-50+ | .238-50+ | .235-50+ |
| 78  | .273-50+ | .269-50+ | .266-50+ | .263-50+ | .260-50+ | .256-50+ | .253-50+ | .250-50+ |
| 79  | .289-50+ | .286-50+ | .282-50+ | .279-50+ | .276-50+ | .272-50+ | .269-50+ | .266-50+ |
| 80  | .306-50+ | .303-50+ | .299-50+ | .296-50+ | .292-50+ | .289-50+ | .286-50+ | .282-50+ |
| 81  | .324-50+ | .320-50+ | .317-50+ | .313-50+ | .310-50+ | .306-50+ | .303-50+ | .300-50+ |

82 .342-50+ .338-50+ .335-50+ .331-50+ .328-50+ .324-50+ .321-50+ .317-50+  
 83 .361-50+ .357-50+ .353-50+ .350-50+ .346-50+ .343-50+ .339-50+ .336-50+  
 84 .380-50+ .376-50+ .373-50+ .369-50+ .366-50+ .362-50+ .358-50+ .355-50+  
 85 .400-46 .396-47 .393-49 .389-50 .386-50+ .382-50+ .378-50+ .375-50+  
 86 .421-41 .417-42 .413-43 .409-44 .406-46 .402-47 .399-48 .395-49  
 87 .442-35 .438-36 .434-37 .430-38 .427-40 .423-41 .420-42 .416-43  
 88 .463-29 .459-29 .456-31 .452-31 .448-32 .445-34 .441-34 .438-36  
 89 .485-21 .482-22 .478-23 .474-23 .471-24 .467-25 .464-26 .460-27  
 90 .508-13 .505-14 .501-14 .498-15 .494-16 .490-16 .487-17 .483-17  
 91 .533-06 .529-07 .526-07 .522-07 .518-08 .515-08 .512-09 .508-09  
 92 .558-05- .555-05- .551-05- .548-05- .544-05- .541-05- .538-05- .534-05-\*  
 93 .586-05- .582-05- .579-05- .576-05- .572-05- .569-05- .566-05- .562-05-\*  
 94 .616-05- .613-05- .610-05- .606-05- .603-05- .600-05- .597-05- .594-05-\*  
 95 .651-05- .648-05- .645-05- .642-05- .639-05- .636-05- .633-05- .630-05-\*  
 96 .651-05- .648-05- .645-05- .642-05- .639-05- .636-05- .633-05- .630-05-\*  
 97 .651-05- .648-05- .645-05- .642-05- .639-05- .636-05- .633-05- .630-05-\*  
 98 .651-05- .648-05- .645-05- .642-05- .639-05- .636-05- .633-05- .630-05-\*  
 99 .651-05- .648-05- .645-05- .642-05- .639-05- .636-05- .633-05- .630-05-\*

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## APPENDIX 21 [<TOP>](#)

### HOME EQUITY CONVERSION MORTGAGE Using an HP12C to Calculate Payments to Borrowers

This appendix illustrates use of an HP12C for calculating payments to borrowers under the Home Equity Conversion Mortgage Insurance program. For simplicity, the examples assume a 75 year old borrower in a \$100,000 house with either a 10 percent interest rate and no servicing fee or a 9.5 percent interest rate and a \$12 servicing fee.

| Screen  | You Enter | Keystrokes | Displays   |
|---|-----------|------------|------------|
| <hr/>   |           |            |            |
| Determining the Principal Limit   |           |            |            |
| <hr/>   |           |            |            |
| Clear register.   |           | [f] [REG]  | 0.000      |
| Enter principal limit factor from table in Appendix 16 for 75 year old borrower and 10 percent interest rate. | .416      | [ENTER]    | .416       |
| Multiply by maximum claim amount.   | 100,000   | [x]        | 41,600.000 |
| <br>  |           |            |            |
| Calculating Tenure Payments   |           |            |            |
| Clear register.   |           | [f] [REG]  | 0.000      |

|  |        |           |              |
|--|--------|-----------|--------------|
| Set calculator for payments at beginning of period.  |        | [g] [BEG] | 0.000        |
| Enter principal limit.   | 41,600 | [ENTER]   | 41,600.000   |
| Subtract initial payments--e.g., \$2,000 mortgage insurance premium (MIP) and \$1,500 closing costs. | 3,500  | [-]       | 38,100.000   |
| Enter net principal limit.   |        | [PV]      | 38,100.000   |
| Enter expected rate.   | 10     | [ENTER]   | 10.000       |
| Add periodic MIP to calculate compounding rate.  | .5     | [+]       | 10.500       |
| Enter monthly compounding rate.  |        | [g] [i]   | .875         |
| Calculate years until borrower turns 100.  | 100    | [ENTER]   | 100.000      |
| Subtract age of youngest borrower rounded to nearest whole year.                                     | 75     | [-]       | 25.000       |
| Enter term in months.  |        | [g] [n]   | 300.000      |
| Calculate future value of principal limit.   |        | [FV]      | -519,983.179 |
| Prepare to calculate monthly payments.   | 0      | [PV]      | 0.000        |
| Calculate monthly tenure payment.  |        | [PMT]     | 356.613      |
| Calculating Term Payments  |        |           |              |
| Clear register.  |        | [f] [REG] | 0.000        |

|  |        |           |              |
|--|--------|-----------|--------------|
| Set calculator for payments at beginning of period.  |        | [g] [BEG] | 0.000        |
| Enter principal limit.   | 41,600 | [ENTER]   | 41,600.000   |
| Subtract initial payment --e.g., \$2,000 mortgage insurance premium (MIP) and \$1,500 closing costs. | 3,500  | [-]       | 38,100.000   |
| Enter net principal limit.   |        | [PV]      | 38,100.000   |
| Enter monthly compounding rate.  | 10.5   | [g] [i]   | .875         |
| Enter term (10 years).   | 10     | [g] [n]   | 120.000      |
| Calculate future value of principal limit.   |        | [FV]      | -108,380.389 |
| Prepare to calculate monthly payments.   | 0      | [PV]      | 0.000        |
| Calculate monthly term payment.  |        | [PMT]     | 509.643      |
| Calculating Tenure Payment With Monthly Servicing Charge Set-Aside                                   |        |           |              |
| Clear register.  |        | [f] [REG] | 0.000        |
| Set calculator for payments at beginning of period.  |        | [g] [BEG] | 0.000        |
| Enter monthly servicing charge.  | 12     | [PMT]     | 12.000       |
| Enter compounding rate (9.5% + .5%).   | 10     | [g] [i]   | .833         |
| Enter term (100 - 75).   | 25     | [g] [n]   | 300.000      |
| Calculate  |        | [PV]      | -1,331.571   |

servicing fee  
set-aside.

|  |        |           |              |
|--|--------|-----------|--------------|
| Add principal limit.<br>(.443 x 100,000)   | 44,300 | [+]       | 42,968.429   |
| Subtract initial<br>payments (\$2,000<br>+\$1,500).  | 3,500  | [-]       | 39,468.429   |
| Enter net principal<br>limit.  |        | [PV]      | 39,468.429   |
| Prepare to calculate<br>monthly payments.  | 0      | [PMT]     | 0.000        |
| Calculate future<br>value of principal<br>limit.   |        | [FV]      | -475,868.673 |
| Prepare to calculate<br>monthly payments.  | 0      | [PV]      | 0.000        |
| Calculate monthly<br>tenure payment.   |        | [PMT]     | 355.686      |
| Calculating Term Payment<br>With Initial Draw and<br>Line of Credit Set-Aside                                    |        |           |              |
| Clear register.  |        | [f] [REG] | 0.000        |
| Set calculator for<br>payments at beginning<br>of period.  |        | [g] [BEG] | 0.000        |
| Enter principal limit.   | 41,600 | [ENTER]   | 41,600.000   |
| Subtract initial payment<br>--e.g., \$2,000<br>mortgage insurance<br>premium (MIP) and<br>\$1,500 closing costs. | 3,500  | [-]       | 38,100.000   |
| Subtract initial draw.   | 5,000  | [-]       | 33,100.000   |
| Subtract line of credit<br>set-aside.  | 2,000  | [-]       | 31,100.000   |
| Enter net principal<br>limit.  |        | [PV]      | 31,100.000   |
| Enter monthly  | 10.5   | [g] [i]   | .875         |

compounding rate.

|   |        |           |             |
|---|--------|-----------|-------------|
| Enter term (10 years).  | 10     | [g] [n]   | 120.000     |
| Calculate future value of principal limit.  |        | [FV]      | -88,467.981 |
| Prepare to calculate monthly payments.  | 0      | [PV]      | 0.000       |
| Calculate monthly term payment.   |        | [PMT]     | 416.008     |
| Change in Payment Plan After 60 Months From Line of Credit to 7-Year Term (Assumes \$5,000 Initial Draw and Financing of Closing Costs) |        |           |             |
| Clear register.   |        | [f] [REG] | 0.000       |
| Set calculator for payments at beginning of period.   |        | [g] [BEG] | 0.000       |
| Enter principal limit.  | 41,600 | [ENTER]   | 41,600.000  |
| Subtract initial payment --e.g., \$2,000 mortgage insurance premium (MIP) and \$1,500 closing costs.                                    | 3,500  | [-]       | 38,100.000  |
| Subtract initial draw.  | 5,000  | [-]       | 33,100.000  |
| Enter net principal limits.   |        | [PV]      | 33,100.000  |
| Enter monthly compounding rate.   | 10.5   | [g] [i]   | .875        |
| Enter lapsed months.  | 60     | [n]       | 60.000      |
| Calculate future value of principal limit.  |        | [FV]      | -55,826.559 |
| Prepare to calculate net principal limit.   |        | [CHS]     | 55,826.559  |
| Enter initial mortgage  | 8,500  | [PV]      | 8,500.000   |

balance (3,500 + 5,000).

|  |        |           |              |
|--|--------|-----------|--------------|
| Calculate current mortgage balance.  |        | [FV]      | -14,336.125  |
| Calculate net principal limit.   |        | [+]       | 41,490.433   |
| Enter net principal limit.   |        | [PV]      | 41,490.433   |
| Enter term (7 years).  | 7      | [g] [n]   | 84.000       |
| Calculate future value of principal limit.   |        | [FV]      | -86,251.365  |
| Prepare to calculate monthly payments.   | 0      | [PV]      | 0.000        |
| Calculate monthly term payment.  |        | [PMT]     | 693.489      |
| Change in Payment Plan After 36 Months From Tenure to 8-Year Term                                    |        |           |              |
| Clear register.  |        | [f] [REG] | 0.000        |
| Set calculator for payments at beginning of period.  |        | [g] [BEG] | 0.000        |
| Enter principal limit.   | 41,600 | [ENTER]   | 41,600.000   |
| Subtract initial payment --e.g., \$2,000 mortgage insurance premium (MIP) and \$1,500 closing costs. | 3,500  | [-]       | 38,100.000   |
| Enter net principal limit.   |        | [PV]      | 33,100.000   |
| Enter monthly compounding rate.  | 10.5   | [g] [i]   | .875         |
| Enter initial term.  | 25     | [g] [n]   | 300.000      |
| Calculate future value of principal limit.   |        | [FV]      | -519,983.179 |



|  |        |         |             |
|--|--------|---------|-------------|
| Prepare to calculate monthly payments.   | 0      | [PV]    | 0.000       |
| Calculate monthly tenure payment.  |        | [PMT]   | 356.613     |
| Prepare to calculate mortgage balance: Enter initial payments (\$2,000 + \$1,500). | 3,500  | [PV]    | 3,500.000   |
| Enter lapsed months.   | 36     | [n]     | 36.000      |
| Calculate current mortgage balance.  |        | [FV]    | -19,934.451 |
| Prepare to calculate principal limit.  | 0      | [PMT]   | 0.000       |
| Enter initial principal limit.   | 41,600 | [PV]    | 41,600.000  |
| Calculate current principal limit.   |        | [FV]    | -56,924.739 |
| Prepare to calculate net principal limit.  |        | [CHS]   | 56,924.739  |
| Calculate net principal limit.   |        | [+]     | 36,990.288  |
| Enter net principal limit.   |        | [PV]    | 36,990.288  |
| Enter term (8 years).  | 8      | [g] [n] | 96.000      |
| Calculate future value of principal limit.   |        | [FV]    | -85,370.593 |
| Prepare to calculate monthly payment.  | 0      | [PV]    | 0.000       |
| Calculate monthly term payment.  |        | [PMT]   | 566.177     |
| Change in Payment Plan After 48 Months   |        |         |             |
| From 10-Year Term with Service Fee to 14-Year Term                                 |        |         |             |

|   |        |           |              |
|---|--------|-----------|--------------|
| Clear register.                                     |        | [f] [REG] | 0.000        |
| Set calculator for payments at beginning of period. |        | [g] [BEG] | 0.000        |
| Enter monthly servicing charge.                     | 12     | [PMT]     | 12.000       |
| Enter compounding rate (9.5% + .5%).                | 10     | [g] [i]   | .833         |
| Enter term (100 - 75).                              | 25     | [g] [n]   | 300.000      |
| Calculate servicing fee set-aside.                  |        | [PV]      | -1,331.571   |
| Add principal limit. (.443 x 100,000)               | 44,300 | [+]       | 42,968.429   |
| Subtract initial payments (\$2,000 + \$1,500).      | 3,500  | [-]       | 39,468.429   |
| Enter net principal limit.                          |        | [PV]      | 39,468.429   |
| Prepare to calculate monthly payments.              |        | [PMT]     | 0.000        |
| Enter initial term.                                 | 10     | [g][n]    | 120.000      |
| Calculate future value of principal limit.          |        | [FV]      | -106,842.674 |
| Prepare to calculate monthly payments.              | 0      | [PV]      | 0.000        |
| Calculate monthly term payment.                     |        | [PMT]     | 517.268      |
| Add monthly service fee.                            | 12     | [+]       | 529.268      |
| Enter total monthly payment.                        |        | [PMT]     | 529.268      |
| Enter initial payments (\$2,000                     | 3,500  | [PV]      | 3,500.000    |

+ \$1,500).

|   |        |           |             |
|---|--------|-----------|-------------|
| Enter lapsed months.                          | 48     | [n]       | 48.000      |
| Calculate current mortgage balance.           |        | [FV]      | -36,551.653 |
| Enter initial principal limit.                | 44,300 | [PV]      | 44,300.000  |
| Prepare to calculate current principal limit. | 0      | [PMT]     | 0.000       |
| Calculate current principal limit.            |        | [FV]      | -65,978.387 |
| Prepare to calculate net principal limit.     |        | [CHS]     | 65,978.387  |
| Calculate net principal limit.                |        | [+]       | 29,426.734  |
| Store net principal limit.                    |        | [STO] [1] | 29,426.734  |
| Clear entries.                                |        | [g] [FIN] | 0.000       |
| Recalculate servicing set-aside.              | 12     | [PMT]     | 12.000      |
| Enter compounding rate.                       | 10     | [g] [i]   | .833        |
| Enter original term of set-aside.             | 300    | [ENTER]   | 300.000     |
| Subtract lapsed months.                       | 48     | [-]       | 252.000     |
| Enter new term of set-aside.                  |        | [n]       | 252.000     |
| Calculate servicing set-aside.                |        | [PV]      | -1,272.639  |
| Recall net principal limit.                   |        | [RCL] [1] | 29,426.734  |
| Add net principal limit.                      |        | [+]       | 28,154.095  |
| Enter net principal limit.                    |        | [PV]      | 28,154.095  |

|  |    |         |              |
|--|----|---------|--------------|
| Prepare to calculate monthly payment.      | 0  | [PMT]   | 0.000        |
| Enter new term.                            | 14 | [g] [n] | 168.000      |
| Calculate future value of principal limit. |    | [FV]    | -113,510.085 |
| Prepare to calculate monthly payment.      | 0  | [PV]    | 0.000        |
| Calculate monthly payment.                 |    | [PMT]   | 309.426      |

## **APPENDIX 22** [<TOP>](#)

### HOME EQUITY CONVERSION MORTGAGE PAYMENT CALCULATION FORMULAS

In this appendix the algebraic formulas necessary to calculate payments to borrowers are given.

#### 1. Principal Limit:

$$PL_{\{Sub\ k\}} = PL_{\{Sub\ 1\}} (1 + i)^{\{Sup\ (k-1)\}}$$

where

$PL_{\{Sub\ k\}}$  is the principal limit in the kth month of the loan, and this principal limit is constant during the entire month,

$PL_{\{Sub\ 1\}}$  is the principal limit at origination and is obtained by multiplying the principal limit factor provided by the Secretary by the maximum claim amount. (NOTE: For loans originated mid-month, the principal limit at origination is the principal limit for the first month of the loan, and is considered to have been in effect since the first day of the origination month), and

$i$  is the monthly compounding rate calculated as one twelfth of the sum of the expected average mortgage rate and the annual MIP rate (0.5 percent). For example, if the expected average mortgage rate is 10 percent, then  $i = (0.10 + 0.005)/12 = 0.00875$ . The compounding rate does not change during the life of the loan. NOTE: The principal limit is not subject to per diem compounding when mid-month computations are made.

#### 2. Servicing Fee Set Aside:

$$S_{k} = FEE \times [(1+i)^{(m+1)} - (1+i)] / [i \times (1+i)^m],$$

where

$S_k$  is the set aside of principal limit required in the kth month of the loan for future payment of flat monthly loan servicing fees from the borrower's account, and this amount is constant for the entire month,

$m$  is the number of remaining months that the servicing fee could be collected, i.e., the remaining term on a tenure mortgage in the kth month of the loan:

$$m = 12 \times (100 - \text{Borrower's Initial Age}) - k + 1, \text{ and}$$

FEE is the monthly loan servicing fee charged to the borrower's account. NOTE: If loan servicing charges are included in the interest rate and thereby paid as a percentage of the outstanding loan balance, then FEE is zero, and the calculation of  $S_k$  results in a zero set aside amount for all months. In all other cases, the servicing set aside,  $S_k$ , decreases as  $k$  increases, reaching zero for  $k = 12 \times (100 - \text{Age})$ .

### 3. Net Principal Limit:

$$NPL_k = \max [ 0, PL_k - S_k - B_k ],$$

where

$NPL_k$  is the net principal limit in the kth month of the loan,

$PL_k$  is the principal limit in the kth month from equation (1),

$S_k$  is the servicing set aside of principal limit from equation (2), and

$B_k$  is the total loan balance in the kth month, including payments to or on behalf of the borrower (whether scheduled or unscheduled), interest at the note rate, and MIP. NOTE:  $B$  is subject to per diem interest and MIP for mid-month calculation. At origination, i.e.,  $k = 1$ , the balance is the initial loan balance.

### 4. Principal Limit for Line of Credit:

$$LOC_k = LOC_1 (1 + i)^{(k-1)},$$

where

$LOC_k$  is the principal limit for the line of credit in the kth month of the loan, and this principal limit is constant for

the entire month (no per diem compounding for mid-month calculations), and

$LOC\{Sub\ 1\}$  is the principal limit established for the line of credit at origination, and must not exceed  $NPL\ \{Sub\ 1\}$  from equation (3). (NOTE:  $LOC\{Sub\ 1\}$  must be large enough to cover required set asides for repairs after closing and first year taxes and insurance, if any.)

#### 5. Available Line of Credit:

$$ALC\{Sub\ k\} = \max [ 0, LOC\{Sub\ k\} - D\{Sub\ k\} - R - T ],$$

where

$ALC\{Sub\ k\}$  is the available line of credit in the kth month of the loan,

$LOC\{Sub\ k\}$  is the principal limit of the line of credit from equation (4),

$D\{Sub\ k\}$  is the portion of the loan balance attributable to the line of credit in the kth month (i.e., the sum of all drawdowns on the line of credit since origination plus interest at the note rate plus MIP. NOTE: The initial balance at origination, scheduled monthly payments, and servicing fees, if any, are not included in D, and that D is subject to per diem interest and MIP if mid-month calculations are made), and

R and T are the fixed set-aside amounts for repairs after closing and first year taxes and insurance as required. NOTE: Once repairs and first year taxes and insurance have been paid, R and T become zero for the remainder of the loan.

#### 6. Scheduled Monthly Payments:

$$P = ( NPL\{Sub\ k\} - [ LOC\{Sub\ k\} - D\{Sub\ k\} ] ) \times \\ (1 + i)^{\{Sup\ m\}} \times i / [(1 + i)^{\{Sup\ (m-1)\}} - (1 + i)],$$

where

P is the maximum scheduled monthly payment to the borrower commencing in month k and continuing for a term of m months,

[For a tenure payment, m is calculated to be:

$$m = 12 \times (100 - \text{Borrower's Initial Age}) - k + 1.$$

For any term less than that of a tenure payment, the borrower may choose the number of months, m. For calculation of monthly payment amount at loan origination,

set  $k = 1$  in all equations. Note that for mid-month originations, the first payment will be made in the second month. For payment plan modifications, principal limits and loan balances will

be calculated as of the effective date of the modification, which is the date of first modified payment.]

$NPL\{Sub\ k\}$  is the net principal limit from equation (3),

$LOC\{Sub\ k\}$  is the principal limit of the line of credit from equation (4), and

$D\{Sub\ k\}$  is the portion of the loan balance attributable to the line of credit as defined in equation (5). Note that the difference ( $LOC\{Sub\ k\} - D\{Sub\ k\}$ ) may be interpreted as the net principal limit of the line of credit, and ( $NPL\{Sub\ k\} - [LOC\{Sub\ k\} - D\{Sub\ k\}]$ ) may be interpreted as net principal limit available for calculating monthly payments.

## **APPENDIX 23** [<TOP>](#)

U.S. Department of Housing and Urban Development  
Washington, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY  
FOR HOUSING/FEDERAL HOUSING COMMISSIONER

TO: ALL HUD APPROVED MORTGAGEES

Welcome to the Home Equity Conversion Mortgage (HECM) Demonstration. The Department is requiring that all mortgagees who participate in the HECM program transmit premium payments and update cases with current data electronically. In order to do this you will need to have an IBM compatible PC, a modem, a printer, a communication package and establish a preauthorized debit account capability for the bank account from which you will authorize HUD to withdraw amounts to pay premiums.

HUD has selected Computer Data Systems, Inc. of Rockville, Maryland to act as agent for the Department in collecting all premiums and maintaining a current database for each case in the HECM program. Enclosed is a set of instructions for establishing a PAD account and information on obtaining a communication package.

Thank you for your interest in the HECM program.

Sincerely,

Min-Li Chung  
Chief, Insurance Operations  
Systems Management Branch  
Insurance Operations Division

## Enclosures

### INSTRUCTIONS FOR ESTABLISHING A PAD ACCOUNT FOR HECM LOANS

The Department's agent, Computer Data Systems Inc. (CDSI) will require the authority to initiate preauthorized debits (PAD) against each participating mortgagee's bank account for the purpose of collecting premiums for each HECM loan.

To establish a PAD account the mortgagee will need to:

1. Fill out the enclosed letter authorizing a PAD.
2. Identify the financial institution holding the account to be debited by name, address and the nine (9) character transmit routing number.
3. Attach a VOIDED check the the letter from the account to avoid transposition errors.
4. Identify your ten digit HUD mortgagee number, mortgagee name, address, contact person and a phone number. If one branch is going to do data entry and pay the premiums for the entire company one PAD is sufficient. If each individual branch has the authority to do data entry and pay premiums then a PAD must be established for each branch.
5. Have an authorized officer of the mortgage company sign the request and return it to HUD's agent.

A test will be run to validate the ABA transit routing number and to prove the financial institutions's ability to process PADs.

Any changes in the PAD must be reported immediately to avoid late charges because a transaction cannot be completed. Late charges and interest will not be excused if the mortgagee fails to supply changes in a PAD account to the agent. In emergencies the PAD may be sent by facsimile to 301/921-0165 and the original may be subsequently mailed.

### INSTRUCTIONS FOR COMMUNICATIONS SOFTWARE

It will be necessary for mortgagees to access the agent's computer system to enter new loans, authorize premium payments and to update loan data as required. In order for mortgagees to access the system they will need to purchase a communications package from the agent. The software package is called PROCOMM and it will provide automatic dialing and sign on to the agent's system. The cost of the program is thirty dollars (\$30.00) and can be obtained by making a check payable in that amount to Computer Data Systems, Inc. when the PAD letter is returned. CDSI will provide the software in diskette form. The check for PROCOMM should be mailed to:



Ms. Kerry Lynn Marks  
Computer Data Systems, Inc.  
One Curie Court  
Rockville, MD 20850

If you have any questions, Ms. Marks may be reached by telephone at 301/921-7271.

Ms. Kerry Lynn Marks  
Computer Data Systems, Inc.  
One Curie Court  
Rockville, MD 20850

Dear Ms. Marks

This letter authorizes your company to establish a pre-authorized debit (PAD) for the Home Equity Conversion Mortgage (HECM) program from which HUD will withdraw amounts to pay mortgage insurance premiums. The required information is as follows:

Mortgagee Number (HUD 10 digit) \_\_\_\_\_  
Mortgagee Name \_\_\_\_\_  
Mortgage Address \_\_\_\_\_  
Street \_\_\_\_\_  
City, State, Zip \_\_\_\_\_  
Contact Person Name \_\_\_\_\_  
Telephone Number \_\_\_\_\_

Financial Institution for PAD \_\_\_\_\_  
Address \_\_\_\_\_

Street \_\_\_\_\_

City, State, Zip \_\_\_\_\_

Telephone No. Financial Institution Area Code ( ) \_\_\_\_\_ - \_\_\_\_\_  
Checking Account Number \_\_\_\_\_

Transmit Routing Number (9 digits) \_\_\_\_\_  
Type of Disk 5 1/4 \_\_\_\_\_ or 3 1/2 \_\_\_\_\_  
Communication Port \_\_\_\_\_ Modem Speed \_\_\_\_\_

This authorization will remain in effect until I (we) submit written notice cancelling or modifying the PAD.

Sincerely

Authorizing Officer Signature

\_\_\_\_\_  
Typed Signature and Date

