

CHAPTER 9. HUD SERVICING

9-1 PURPOSE. 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. 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.

9-3USE OF AUTOMATED SYSTEMS. 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.

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9-4 MORTGAGES REQUIRING MONTHLY PAYMENTS.

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;

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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.

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;

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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.

9-6ESTABLISHING A SERVICING ACCOUNT. 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.

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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.

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9-7 BORROWER DEFAULTS.

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.

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.

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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.

9-9PAYOFFS. 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.

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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.

9-10DUE AND PAYABLE MORTGAGES. 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.

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