

## HUD Issues HECM for Purchase Guidance

Yesterday, the Department of Housing and Urban Development issued **Mortgagee Letter 2008-33: Home Equity Conversion Mortgage Home Purchase Program**. We appreciate the fact that HUD incorporated NRMLA member questions and concerns and applaud HUD for bringing this new feature to market.

Key points, include:

- HECM for purchase transactions, for which the FHA case number is assigned on or after January 1, 2009, must satisfy existing program requirements and the provisions of this Mortgagee Letter.
- HECM borrowers must occupy the property within 60 days from the date of closing. Lenders are required to ensure all outstanding or unpaid obligations incurred by the prospective mortgagor, in connection with the HECM transaction, are satisfied at closing.
- Only properties where construction is completed, as defined in Mortgagee Letter 2007-06, are eligible.
- Ineligible property types include: cooperative units; newly constructed principal residence where a Certificate of Occupancy or its equivalent has not been issued by the appropriate local authority; boarding houses; bed and breakfast establishments; existing manufactured homes built before June 15, 1976; and existing manufactured homes built after June 15, 1976 that fail to conform to the Manufactured Home Construction Safety Standards.
- To avoid cases of property flipping, lenders must take steps to ensure that: a) only current owners of record may sell properties that will be financed using FHA-insured mortgages; b) any resale of a property may not occur 90 or fewer days from the last sale to be eligible for FHA financing; and c) for resales that occur between 91 and 180 days where the new sales price exceeds 100% of the previous sales price, FHA will require additional documentation validating the property's value.
- Existing HECM borrowers who participate in a HECM for Purchase transaction are ineligible for a reduction of the upfront MIP and lenders must enter the transaction into FHA Connection as a new HECM.

- At closing, HECM borrowers must provide a monetary investment which will be applied to satisfy the difference between the HECM principal limit and the sales price for the property, plus any HECM loan related fees that are not financed or offset by other allowable FHA funding sources. In other words, the proceeds from the reverse mortgage and any funds from the sale of the old property (or from the borrower's savings) must be enough to purchase the new property outright.
- Lenders will be required to verify the source of all funds prior to closing. A verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in an account, or the account was opened recently, the lender must obtain a credible explanation of the source of those funds. Such documentation must be provided in the FHA case binder. Failure to provide the necessary documentation may result in a notice of rejection and delay of endorsement.
- Borrowers may not obtain a bridge loan (also known as <sup>3</sup>gap financing<sup>2</sup>) or engage in other interim financing methods to meet the monetary investment requirement or payment of closing costs needed to complete the purchase transaction. This restriction includes subordinate liens, personal loans, cash withdrawals from credit cards, seller financing and any other lending commitment that cannot be satisfied at closing.
- HUD-approved housing counseling agencies that have been approved to provide reverse mortgage counseling, must counsel those who anticipate using the HECM for Purchase option on all topics covered in this Mortgagee Letter and other HUD requirements and issuances.
- The three-day right of rescission period is not applicable to HECM for Purchase transactions. Therefore, all initial advances may be disbursed on the day of closing by the settlement agent. However, FHA encourages lenders to seek their counsel's opinion to assure compliance with Federal or State laws.
- Lenders are required to ensure the property, when used as collateral for the HECM, meets the following property requirements: 1) Is the borrower's principal residence; 2) Construction is complete and a certificate of occupancy or its equivalent has been issued; 3) Any construction loan financing for the property, which will serve as the collateral for the HECM loan, is satisfied and the HECM liens will be in a first and second lien position and, at the time of closing, no other liens against the property exist.
- Instructions on how to enter HECM for Purchase transactions into FHA Connection and Insurance Accounting Collection System will be provided in a separate instruction.

If you have any other questions, please email me at [dhicks@dworbell.com](mailto:dhicks@dworbell.com) and we'll contact FHA to obtain clarification.

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