HECM Financial Assessment

The **HECM Financial Assessment** function on the FHA Connection (FHAC) allows a lender to evaluate the ability of the borrower(s) to meet their financial obligations in a timely manner and comply with HUD's Home Equity Conversion Mortgage (HECM) requirements. Over time, the collected HECM information will provide FHA with the ability to analyze different aspects of the financial assessment and impact on loan performance.

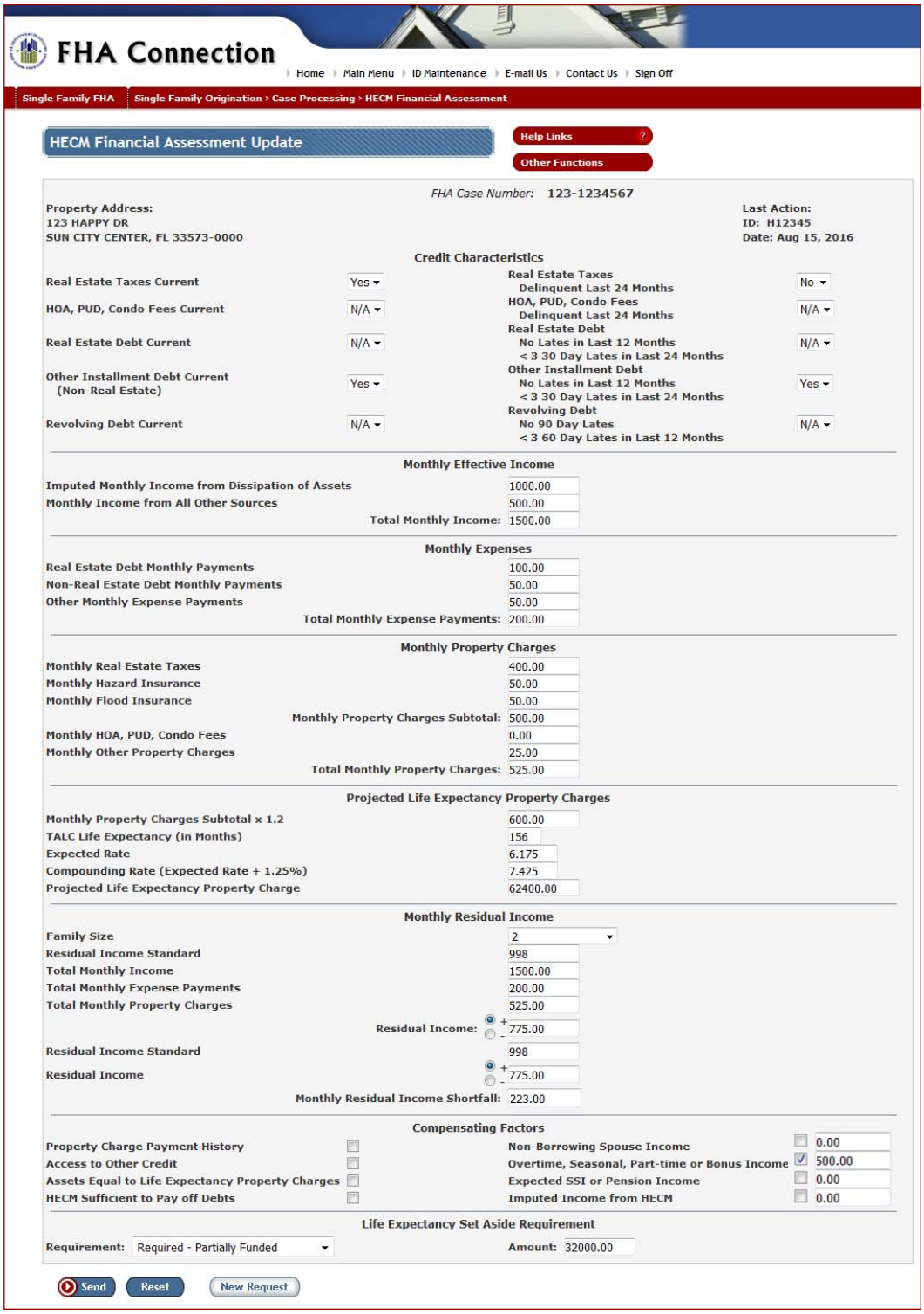


Figure 1: HECM Financial Assessment Update page

This ***FHA Connection Guide*** module provides the following sections to assist you in completing **HECM Financial Assessment**:

- **Available Reference Information**
- **Basic Prerequisites and Requirements**
- **HECM Financial Assessment Processing**
  - **Key Steps in Using HECM Financial Assessment**
  - **HECM Financial Assessment Processing *(by Page Section)***

Available Reference Information

Reference information to help in completing the page is available using any combination of the detailed resources listed below:

1. Click Help Links ? in the upper right of the HECM Financial Assessment page. Select from the Help menu options for detailed information. Especially useful in completing the HECM Financial page are:
   - **Steps for Processing** which explains how to enter information in each page section.
   - **Field Descriptions** which describe each field and its contents.

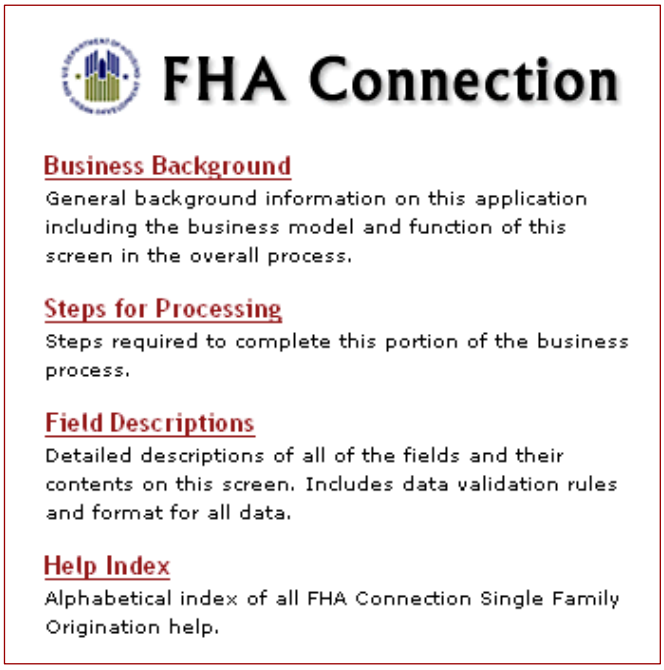


Figure 2: FHA Connection Help pop-up menu

2. Refer to the below listed mortgagee letters and attached reference documents for additional guidance when completing **HECM Financial Assessment**:
   - Mortgagee Letter 2016-10, *Home Equity Conversion Mortgage (HECM) Program – Servicing Fee Set-Aside Growth Rate; Third Party Property Tax Verification Fees; and Financial Assessment and Property Charge Requirements (with attached HECM Financial Assessment and Property Charge Guide)*
   - Mortgagee Letter 2015-09, *Home Equity Conversion Mortgage (HECM) Program – Life Expectancy Set-Aside Growth Rate and Clarification to Section 3.98 of the HECM Financial Assessment and Property Charge Guide*
   - Mortgagee Letter 2014-*22, Home Equity Conversion Mortgage (HECM) Financial Assessment and Property Charge Requirements*

- Mortgagee Letter *2014-21, Revised Changes to the Home Equity Conversion Mortgage (HECM) Program Requirements,*

Mortgagee letters are accessed by selecting the Mortgagee Letters link in the:

- footer on FHA Connection pages (*before or after sign on*) (**Figure 3**) and following the links to the specific letter, or,
- **FHA Connection Resources** section on the **FHA Connection Main Menu** (**Figure 4**).

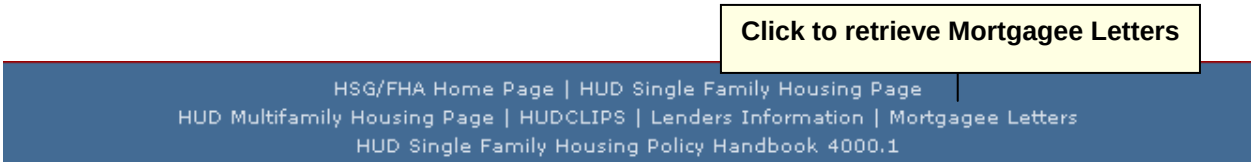


Figure 3: Link to Mortgagee Letters in FHA Connection footer

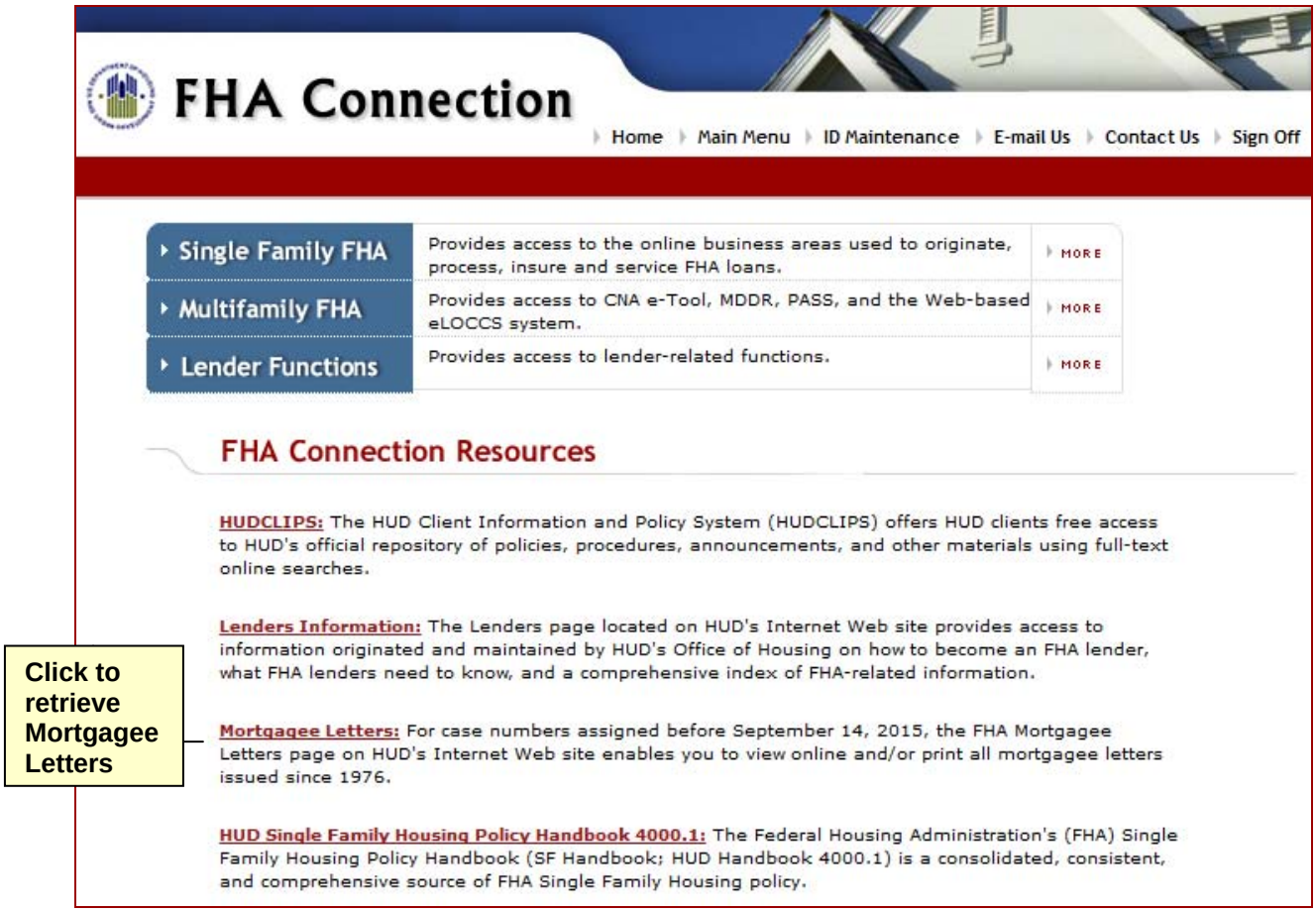


Figure 4: Link to Mortgagee Letters on the FHA Connection Main Menu page

Basic Prerequisites and Requirements

Prior to working on **HECM Financial Assessment**, you should:

1. Have FHA Connection add/update or greater authorization for **Insurance Application** in order to enter **HECM Financial Assessment** data. For those with query-only authorization, you may only view the HECM Financial Assessment page information—no changes allowed.
2. Establish a case in HUD's origination system. For information on establishing a case, see the ***FHA Connection Guide*** modules: ***Case Processing Overview*** and ***Case Number Assignment***.

   Note: If the case number assignment date is prior to April 27, 2015, then **HECM Financial Assessment** is *not* required.

3. Complete the **Model HECM Financial Analysis Worksheet** (see Attachment of the **HECM Financial Assessment and Property Charge Guide,** ML-2016-10) or your financial institution's own comparable financial analysis document.

   Note: Appraisal Logging can be completed before or after **HECM Financial Assessment**; however, both must be completed before entering information in **HECM Insurance Application**.

HECM Financial Assessment Processing *(by Page Section)*

This section begins with the basic steps for processing the FHA Connection's **HECM Financial Assessment**, followed by an illustration and helpful tips for completing each page section.

HECM Financial Assessment must be completed prior to HECM insurance processing and is required for all HECM cases with a case number assigned on or after April 27, 2015. After a case is endorsed for HECM insurance, the financial assessment information is view only.

Key Steps in Using HECM Financial Assessment on the FHA Connection

Follow these basic steps to process **HECM Financial Assessment**.

1. Access **HECM Financial Assessment** after sign on by following the menu path: **Single Family FHA > Single Family Origination > Case Processing > HECM Financial Assessment**. The FHA Connection menu path appears as a "breadcrumb" trail in the red banner at the top of each function page.
2. On the HECM Financial Assessment page (**Figure 5**), enter the case number in the **FHA Case Number** field.

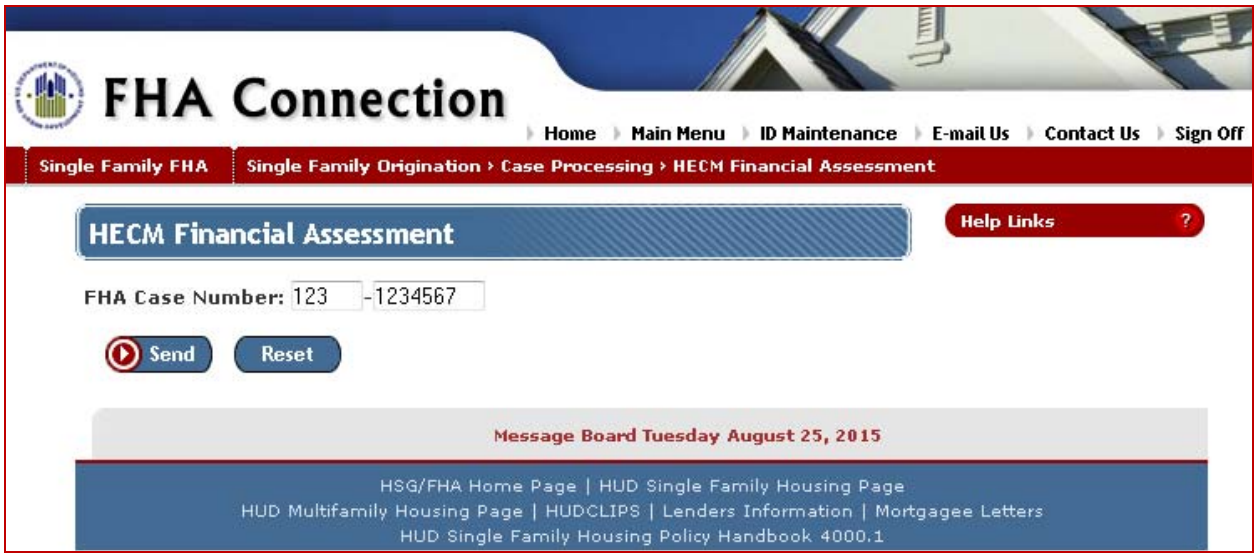


Figure 5: HECM Financial Assessment page

3. Successful entry of the case number opens the HECM Financial Assessment Update page (**Figure 1**) to enter or update financial assessment information associated with the case.
4. To assist you with processing **HECM Financial Assessment**, refer to the following sections of this module: **Credit Characteristics, Monthly Effective Income, and Monthly Expenses**; **Monthly Property Charges**; **Projected Life Expectancy Property Charges**; **Monthly Residual Income and Compensating Factors**; and **Life Expectancy Set Aside Factor**.

Credit Characteristics

The **Credit Characteristics** section of the HECM Financial Assessment Update page appears in **Figure 6**, followed by information pertaining to completing this page section.

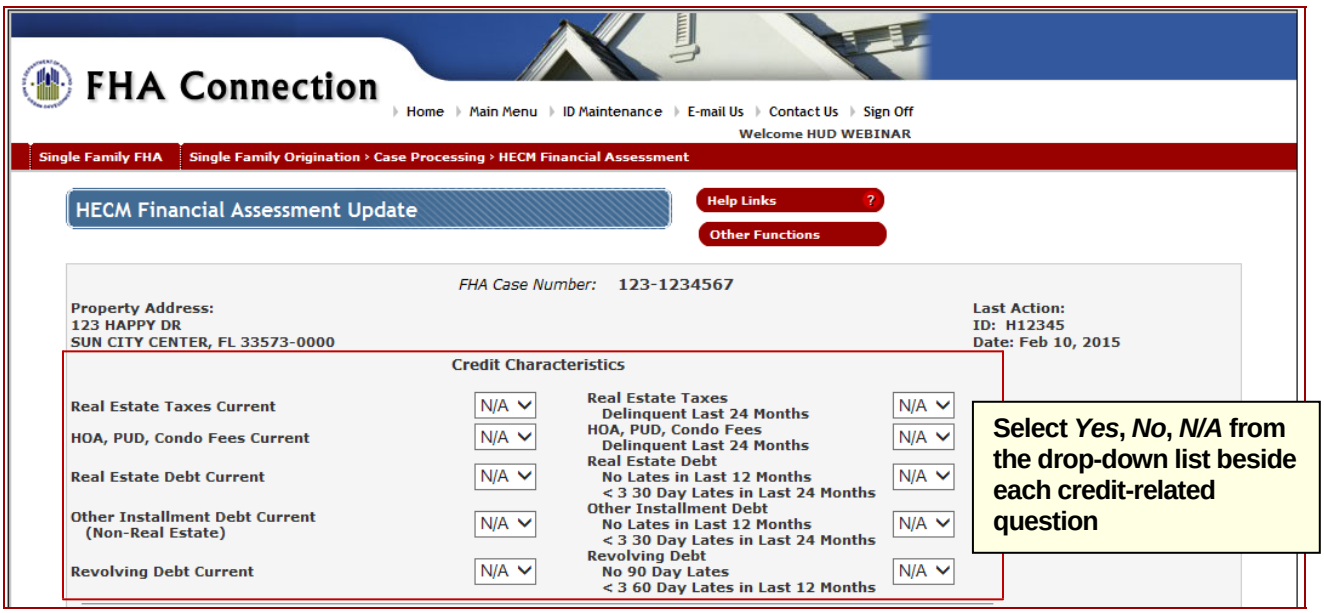


Figure 6: Credit Characteristics page section

Questions in the left column correspond to the questions in the direct opposite column, providing more payment/credit-related information about the borrower(s). Refer to HUD's **HECM Financial Analysis Worksheet** (Sections A and B) and **Fannie Mae form 1009** (Section VI) to assist you in answering these questions.

Notes:

- The **Real Estate Debt - No Lates in Last 12 Months < 3 30 Day Lates in Last 24 Months** and **Other Installment Debt - No Lates in Last 12 Months < 3 30 Day Lates in Last 24 Months** fields specify whether there were *no* late payments in the last 12 months and less than three 30-day late payments in the last 24 months.
- The **Revolving Debt - No 90 Day Lates < 3 60 Day Lates in Last 12 Months** field specifies whether there were *no* 90-day late payments and less than three 60-day late payments in the last 12 months.

Monthly Effective Income, Monthly Expenses, and Monthly Property Charges

The **Monthly Effective Income**, **Monthly Expenses**, and **Monthly Property Charges** sections of the HECM Financial Assessment Update page appear in **Figure 7**, followed by guidance on completing these page sections.

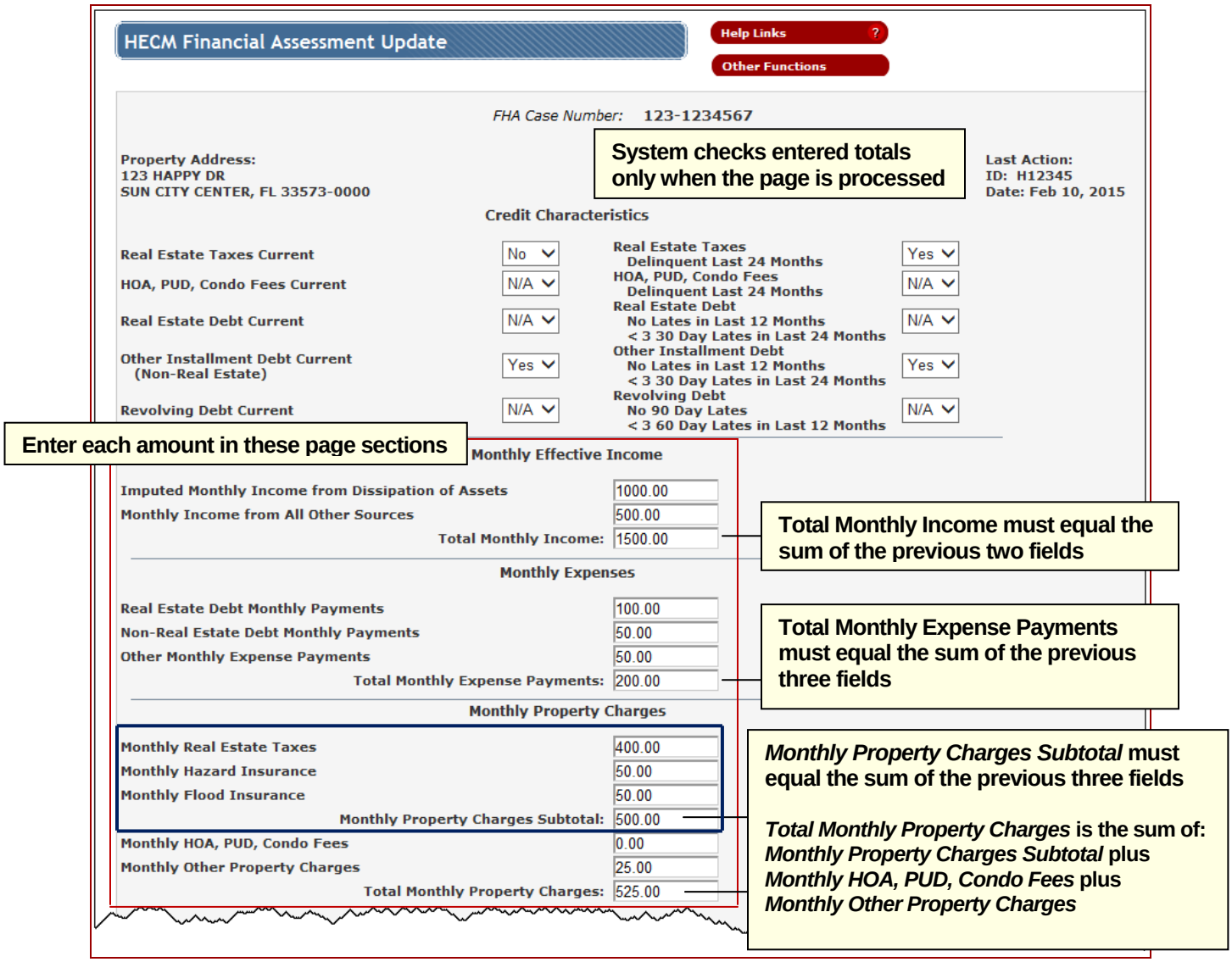


Figure 7: Top portion of the HECM Financial Assessment Update page

When entering dollar amounts on this page, enter dollars and cents with a decimal point (e.g., 1234.56), but do not enter a dollar sign. If the amount is zero, you *cannot* leave the field blank, you must enter 0 (the system reformats the field entry to 0.00 when the page is processed).

The amounts entered in the total and/or subtotal fields in these page sections must equal the sum of the amounts in the respective fields. Refer to the **HECM Financial Analysis Worksheet** (Sections D, F, and H) and **Fannie Mae form 1009** (Sections III and IV) for the field information.

Page totals and subtotals are checked by the system only upon processing the page—not while entering the page information. During data entry, the system also carries forward designated total fields to the **Monthly Residual Income** page section as shown in **Figure 8**.

Monthly Effective Income

Imputed Monthly Income from Dissipation of Assets	1000.00
Monthly Income from All Other Sources	500.00
Total Monthly Income:	1500.00

Monthly Expenses

Real Estate Debt Monthly Payments	100.00
Non-Real Estate Debt Monthly Payments	50.00
Other Monthly Expense Payments	50.00
Total Monthly Expense Payments:	200.00

Monthly Property Charges

Monthly Real Estate Taxes	400.00
Monthly Hazard Insurance	50.00
Monthly Flood Insurance	50.00
Monthly Property Charges Subtotal:	500.00
Monthly HOA, PUD, Condo Fees	0.00
Monthly Other Property Charges	25.00
Total Monthly Property Charges:	525.00

Amounts entered in the Total Monthly Income, Total Monthly Expense Payments, and Total Monthly Property Charges fields are brought forward by the system to the same fields in the Monthly Residual Income page section (*below*).

Edits to the total amounts must be made in the page section where the amount was originally entered.

Monthly Residual Income

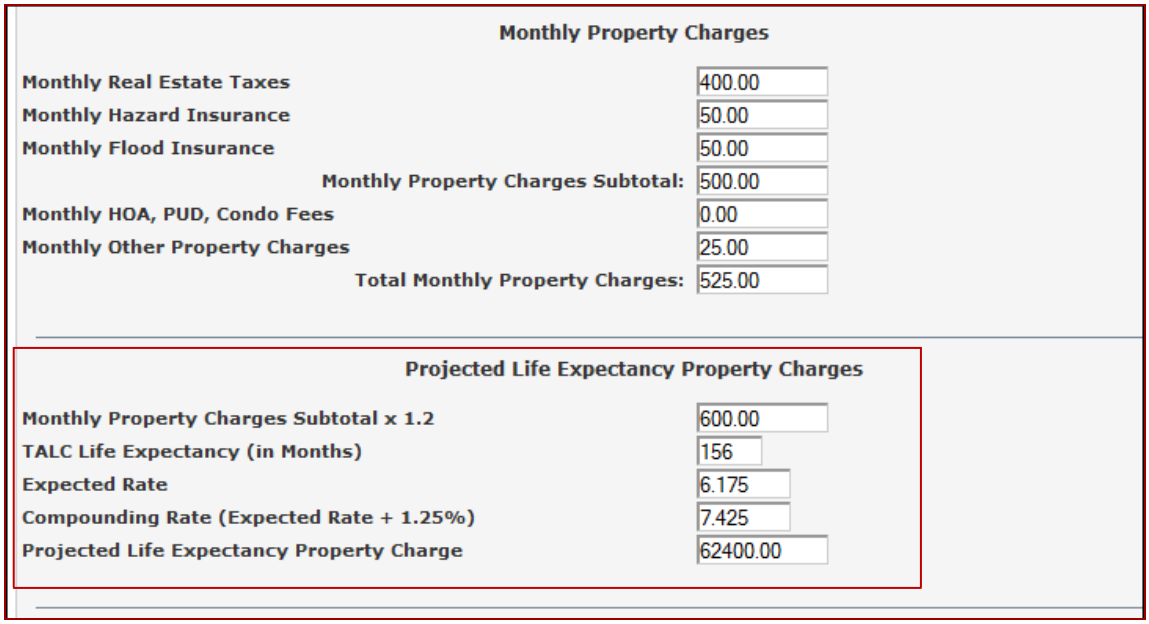
Family Size	
Residual Income Standard	
Total Monthly Income	1500.00
Total Monthly Expense Payments	200.00
Total Monthly Property Charges	525.00
Residual Income:	+ -
Residual Income Standard	
Residual Income	+ -
Monthly Residual Income Shortfall:	

These fields are view only in this page section

Figure 8: Monthly Effective Income, Monthly Expenses, Monthly Property Charges, and Monthly Residual Income page sections

Projected Life Expectancy Property Charges

The **Projected Life Expectancy Property Charges** page section of the HECM Financial Assessment Update page appear in **Figure 9**, followed by some processing tips for this page section.



Monthly Property Charges

Monthly Real Estate Taxes	400.00
Monthly Hazard Insurance	50.00
Monthly Flood Insurance	50.00
Monthly Property Charges Subtotal:	500.00
Monthly HOA, PUD, Condo Fees	0.00
Monthly Other Property Charges	25.00
Total Monthly Property Charges:	525.00

Projected Life Expectancy Property Charges

Monthly Property Charges Subtotal x 1.2	600.00
TALC Life Expectancy (in Months)	156
Expected Rate	6.175
Compounding Rate (Expected Rate + 1.25%)	7.425
Projected Life Expectancy Property Charge	62400.00

Figure 9: Monthly Property Charges and Projected Life Expectancy Property Charges page sections

This page section is comprised of several calculations. Below is a summary of each field calculation required for this page section:

- **Monthly Property Charges Subtotal X 1.2**: This is the result of multiplying the amount entered in the **Monthly Property Charges Subtotal** field (located in the **Monthly Property Charges** page section) by 1.2. When entering the amount, do *not* round up or down. (Example: if the result is 123.456, enter 123.45; or, if the result is 123.442, enter 123.44.) This field must be greater than zero.
- **TALC Life Expectancy (in Month)**: Use the **HECM Financial Assessment Worksheet, Appendix 2** to determine the life expectancy of the youngest borrower in years. Then, multiply that amount by 12 which will give you the expected life expectancy of the youngest borrower in months. Example: Life expectancy for a 72 year old borrower is 13 years according to HUD's reference document. Multiply 13 years by 12 months which equals 156 months. 156 is the life expectancy of a 72 year old borrower in months in accordance with HUD's calculations.
- **Compounding Rate (Expected Rate + 1.25%):** This is the sum of adding 1.25% (the annual mortgage insurance premium rate) to the amount entered in the **Expected Rate** field. Do not enter a percent (%) sign, only digits and a decimal point are permitted in this field.
- **Projected Life Expectancy Property Charge**: Use HUD's *Projected Life Expectancy Property Charge Cost* formula to determine this field. Refer to the **HECM Financial Assessment and Property Charge Guide** (Sections 5.2 and 5.3) for information on this formula and completing this field calculation.

Monthly Residual Income and Compensating Factors

The **Monthly Residual Income** and **Compensating Factors** page sections of the HECM Financial Assessment Update page appear in **Figure 10**, followed by guidance on completing these two page sections.

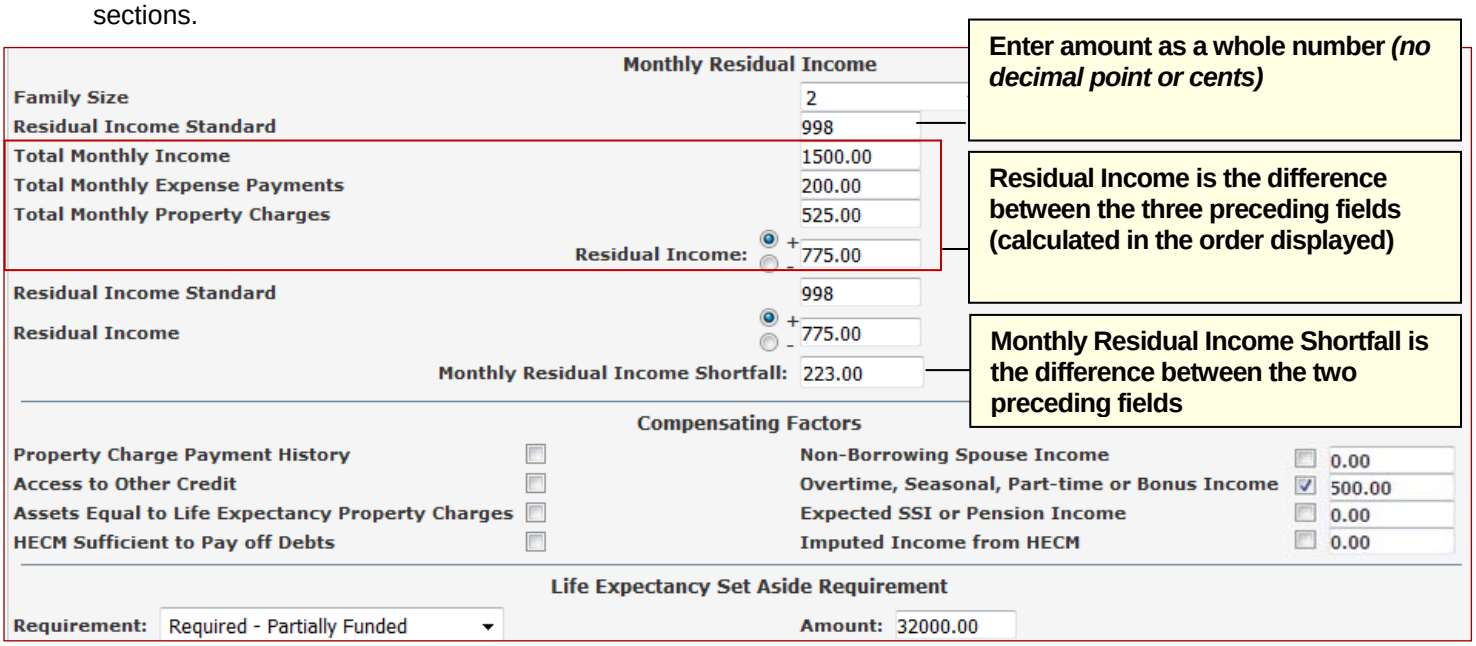


Figure 10: Monthly Residual Income and Compensating Factors page sections

These two page sections are comprised of several calculations, field totals brought forward by the system, and a listing of compensating factors and amounts that may apply to the borrower(s). Below are some helpful tips in completing these two page sections:

- **Family Size**: Select the number from the drop-down box. If the family size number meets or exceeds four, select 4 *(indicates 4 or more)*.
- **Residual Income Standard**: Pertains to the borrower's family size (**Family Size** field) and the actual property's geographic region. Refer to the **HECM Financial Assessment and Property Charge Guide** and use the Table of Residual Income in Section 3.100 to locate this regional standard. The maximum amount allowed is $1,160. Enter the amount as a whole number with no decimal point or cents.
- **Total Monthly Income**, **Total Monthly Expense Payments**, and **Total Monthly Property Charges** fields are prefilled by the system from the other page sections. Amounts for these fields in this page section are view only.
- **Residual Income**: This is the difference of **Total Monthly Income** minus **Total Monthly Expense Payments** minus **Total Monthly Property Charges**. Select **+** or **–** to specify whether the amount is a positive or negative dollar amount.
- **Monthly Residual Income Shortfall**: This is the difference of **Residual Income Standard** minus **Residual Income** *(the two preceding fields)*. If this amount is a positive number, e.g., 998 – 775 = 223, enter that whole amount. If the amount is zero (0) or a negative number, 825 – 849 = -24, then leave the field blank--do *not* enter a zero (0). Select **+** or **–** to specify whether the amount is a positive or negative dollar amount.
- **Compensating Factors section**: Click the box and enter amount, *if applicable*, beside each factor relevant to the borrower's situation (see the **HECM Financial Analysis Worksheet** (Section L) for guidance).

Life Expectancy Set Aside Requirement

The **Life Expectancy Set Aside Requirement** section of the HECM Financial Assessment Update page appears in **Figure 11**, followed by information pertaining to this page section.

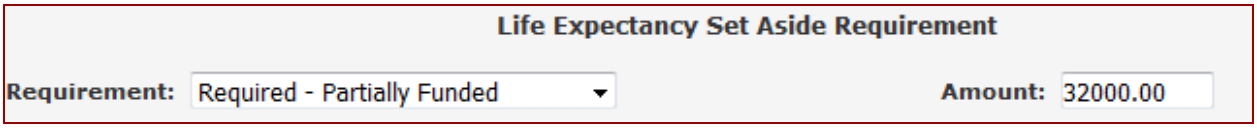


Figure 11: Life Expectancy Set Aside Requirement page section

- **Requirement**: Specify the Life Expectancy Set Aside (LESA) requirement level by selecting one of the options from the drop-down list:
  - *Not Required*: No LESA required.
  - *Voluntary – Fully Funded*: LESA amount is not required but the borrower has opted to have the full amount set aside.
  - *Required – Fully Funded*: LESA amount is required and full amount must be set aside.
  - *Required – Partially Funded*: A partial LESA amount is required.

  Refer to the **HECM Financial Assessment and Property Charge Guide** (Section 5) for HUD's guidance and criteria on making this determination.

- **Amount**:
  Total dollar amount of the life expectancy set aside, if required or voluntary, in accordance with the designated **Requirement** option (see below for details):
  - *Not Required*: **Amount** field must be zero – do not enter anything in the **Amount** field.
  - *Voluntary – Fully Funded* -or- *Required – Fully Funded*: **Amount** field must equal the amount entered in the **Projected Life Expectancy Property Charge** field (located in the **Projected Life Expectancy Property Charge** page section—see **Figure 12** below).
  - *Required – Partially Funded*: A partial LESA amount is required. **Amount** field must be less than 75% of the amount entered in the **Projected Life Expectancy Property Charge** field (located in the **Projected Life Expectancy Property Charge** page section--see **Figure 12** below).

  Refer to the **HECM Financial Assessment and Property Charge Guide** (Section 5) for HUD's guidance and criteria on making this determination

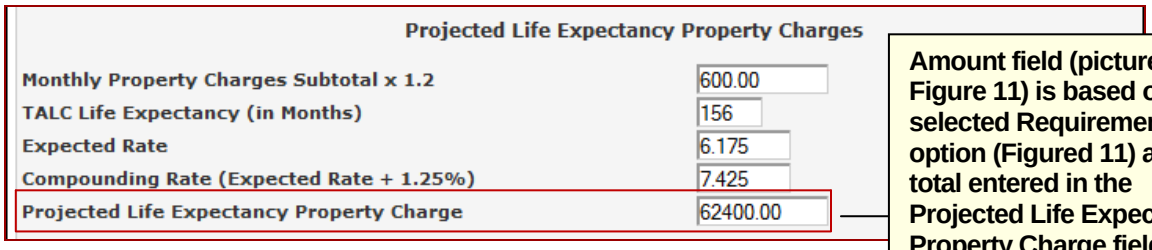


Figure 12: Projected Life Expectancy Property Charges page section

Amount field (pictured in Figure 11) is based on the selected Requirement field option (Figured 11) and the total entered in the Projected Life Expectancy Property Charge field (included in the Projected Life Expectancy Property Charges page section -- pictured on left)