



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

July 13, 2016

Mortgagee Letter 2016-10

To	All FHA Approved Mortgagees
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Subject	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
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Purpose	This Mortgagee Letter establishes a revised growth rate for Servicing Fee Set-Asides, authorizes mortgagees to pass costs of obtaining third party verification of an applicant’s property tax payment history to the mortgagor, and transmits a revised <i>HECM Financial Assessment and Property Charge Guide</i> .
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Effective Date	<p>The authorization for mortgagees to pass on to mortgagors the actual cost of the Third Party Property Tax Verification Fee is effective for case numbers assigned on or after July 13, 2016.</p> <p>The revised growth rate for the Servicing Fee Set-Aside and the attached <i>HECM Financial Assessment and Property Charge Guide</i> are effective for case numbers assigned on or after October 3, 2016.</p>
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Affected Topics	<p>This Mortgagee Letter:</p> <ul style="list-style-type: none">• Revises the Servicing Fee Set-Aside compounding interest rate, commonly referred to as the growth rate, to use the Note Rate found in Appendix 22 and Chapter 5 of HUD Handbook 4235.1 REV-1, and where it conflicts, replaces policy requirements for Monthly Payment Calculations in Mortgagee Letter 1997-15;• Adds to the list of allowable fees and charges a Third Party Property Tax Verification Fee;• Supersedes in its entirety Mortgagee Letter 2014-22 except for that portion providing requirements for the submission of HECM case binders for FHA insurance endorsement; and
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Affected Topics (continued)

- Supersedes in its entirety the *HECM Financial Assessment and Property Charge Guide* transmitted with Mortgagee Letter 2014-22, and supplements and, where it conflicts, replaces HUD Handbook 4235.1 REV-1 and Mortgagee Letter 2014-21.
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Servicing Fee Set-Aside Growth Rate

The Servicing Fee Set-Aside is used for the payment of the monthly servicing fee and will increase each month at a rate equal to one-twelfth of the sum of the mortgage interest rate (Note Rate), plus the annual mortgage insurance premium rate (currently 0.0125 or 1.25%), from the date the loan is funded. The Servicing Fee Set-Aside amount is determined at origination and its balance is adjusted monthly by applying the formula below.

Formula

$$S\{\text{Sub } k\} = \text{FEE} \times [(1+i)^{\{\text{Sup}(m+1)\}} - (1+i)] / [i \times (1+i)^{\{\text{Sup } m\}}],$$

Where, $S\{\text{Sub } k\}$ is the set aside of principal limit required in the k th month of the loan, where k at time of loan origination is equal to 1, for future payment of flat monthly loan servicing fees from the borrower's account, and this amount is constant for the entire month,

i is the monthly compounding rate calculated as one twelfth of the sum of the mortgage interest rate (Note Rate) and the annual MIP rate (currently 0.0125 or 1.25%),

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 k th month of the loan:

$$m = 12 \times (100 - \text{Borrower's Age}) - k + 1,$$

Borrower's Age is the borrower's age used to calculate the Principal Limit, and

FEE is the monthly loan servicing fee charged to the borrower's account.

Where loan servicing charges are included in the mortgage interest rate (Note Rate) and are paid as a percentage of the outstanding loan balance, then FEE is zero, and the calculation of $S\{\text{Sub } k\}$ results in a zero set aside amount for all months. For all other cases, the servicing fee set aside, $S\{\text{Sub } k\}$, will decrease as k increases, reaching zero for $k = 12 \times (100 - \text{Borrower's Age})$.

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Third Party Verification of Property Tax Amount and Payment History

A Third Party Property Tax Verification Fee is a fee charged to the mortgagee by a third party to verify the mortgagor's property tax payment history and the annual amount of property taxes due for a specific property. FHA is adding the Third Party Property Tax Verification Fee to the list of allowable charges and fees that may be paid by the mortgagor.

The maximum fee must be a reasonable and customary amount and may not exceed the actual amount paid by the mortgagee.

Mortgagees may not charge a Tax Service Fee, which is a fee for services related to obtaining and monitoring tax bills and tax payments after closing.

Revised HECM Financial Assessment and Property Charge Guide

The changes in the attached HECM Financial Assessment and Property Charge Guide may be summarized as follows:

Section No.	Subject	Revised Requirement
2.14	Payment History on Housing Obligations	Requirements apply only to mortgagor's principal residence.
2.21	Delinquent Federal Non-Tax Debt	Mortgagee must suspend processing of the application until mortgagor has resolved debt with creditor agency.
2.23	Delinquent Federal Tax Debt	Mortgagee must suspend processing of the application until mortgagor has resolved debt with IRS.
2.28	Satisfactory Property Charge Payment History	Requirements apply to all owned real estate.
3.4	Income from an Eligible Non-Borrowing Spouse	Revises requirements based on Mortgagee Letter 2015-02.
3.46	Pension Income	Mortgagees are not required to document continuance for federal pensions.
3.81	Deferred Obligations	Requirements exclude student loans.
3.82	Installment Loans	Requirements exclude student loans.

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**Revised HECM
Financial
Assessment and
Property
Charge Guide**
(continued)

Section No.	Subject	Revised Requirement
3.83	Student Loans	New requirements for calculating student loan payments.
3.94	Maintenance and Utility Charges	Source of square feet of gross living area identified.
3.98	Property Taxes as Percentage of Gross Income	Requirement revised per Mortgagee Letter 2015-09.
4.5	Compensating Factors-Other Resources	New requirement that mortgagor residual income must be 80%-99% of applicable standard for the following Compensating Factors: <ul style="list-style-type: none"> • Assets Equal to Life Expectancy Property Charges • HECM Proceeds Sufficient to Pay Off Debts • Access to Other Resources
4.5	Compensating Factors-Other Resources	New requirements for Access to Other Resources defining credit availability.
5.2	Projected Life Expectancy Property Charges	New requirement for rounding age of youngest mortgagor up to nearest whole year based on whether birthday is less than 183 days from estimated closing date. <i>Note:</i> Also affects sections 3.68, 3.69, 5.2, 5.3, 5.6 and 5.8.
5.9	Life Expectancy Set-Aside and Loan Decision	Revised requirements replace matrix of examples.
Throughout Document		
Includes various technical edits to: <ul style="list-style-type: none"> • Conform existing policy to existing published FAQs and Mortgagee Letters; and • Include hyperlinks, punctuation, formatting, grammar or spelling, and capitalization. 		

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Information Collection

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Questions

Please address any questions about the topics addressed in this Mortgagee Letter to the FHA Resource Center at (800) 225-5342. Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at (800) 877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers

Signature

Edward L. Golding
Principal Deputy Assistant Secretary for Housing

[Attachment](#)