



Bankers Advisory

COMPLIANCE MONITOR

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HUD Publishes Reverse Mortgage Advertising Rules and HECM Insurance Limits

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June 18, 2014 the Federal Housing Administration (FHA) published two Mortgagee Letters on the Home Equity Conversion Mortgage (HECM) program. HUD announced policy changes that reduce risk to the Mutual Mortgage Insurance (MMI) Fund and support sustainability of the HECM program. The changes published address risk associated with certain fixed interest-rate (fixed-rate) products and remind mortgagees of their responsibilities related to marketing and advertising.

Limit on Insurability of Fixed Interest Rate Products Under the HECM Program

Mortgagee Letter 2014-11, *Limit on Insurability of Fixed Interest Rate Products Under the HECM Program*, limits FHA insurance on fixed-rate HECMs to mortgages with a Single Disbursement Lump Sum payment option, and makes other related program changes. The HECM fixed-rate product changes eliminate potential hedging and interest-rate risk associated with post-closing future draw features on fixed-rate HECMs. The changes also align FHA policy with previously announced Ginnie Mae (GNMA) policy that made fixed-rate HECMs with future draws ineligible for GNMA-guaranteed HMBS securities. These changes became effective for HMBS securities issued on or after June 1, 2014.

The policy changes in today's Mortgagee Letter include, but are not limited to:

- Limiting FHA insurance of fixed-rate HECMs to mortgages that are: 1) limited to a single, full draw to be made at loan closing; and 2) do not provide for future advances to the mortgagor under any circumstances;
- Eliminating the availability of the Single Disbursement Lump Sum payment option for adjustable interest-rate HECMs;
- Changes to unused Repair Set-aside funds for fixed-rate HECMs; and
- FHA Connection updates.

The policy changes of Mortgagee Letter 2014-11, including the four topics noted above, will be effective for all case numbers assigned on or after June 25, 2014, except for pipeline processing timeframes contained in the Mortgagee Letter.

In addition, the Mortgagee Letter contains two sets of revised Model Fixed Interest Rate HECM Loan Documents:

1. For case numbers assigned on or before August 3, 2014, which mortgagees *may* use to update fixed interest rate loan documents for new mortgages and pending mortgages that did not close prior to the effective date of today's Mortgagee Letter 2014-11.
2. For case numbers assigned on or after the effective date of the April 25, 2014 Mortgagee Letter 2014-07, *HECM Program: Non-borrowing Spouse*, which mortgagees must begin using on or after the effective date of Mortgagee Letter 2014-07.

Prohibition on Misleading or Deceptive Program Descriptions or Advertising and Prohibition on Restriction of Mortgagor's Freedom of Choice

Mortgagee Letter 2014-10, *Prohibition on Misleading or Deceptive Program Descriptions or Advertising and Prohibition on Restriction of Mortgagor's Freedom of Choice*, reminds mortgagees of FHA's requirements prohibiting misleading or deceptive advertising which may result in seniors not being properly informed of all of the features that are available under the HECM program. Additionally, this Mortgagee Letter reminds mortgagees of the full extent of mortgagor choice in the HECM program, and prohibits restriction of such choice.

FHA issued the Mortgagee Letter to make clear that any misleading or deceptive advertising practices will not be tolerated. These reminders protect mortgagors from fraud and help maintain the HECM program as a strong homeownership option where seniors have clear information to make the choices that are best suited to their situation.



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