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Changes to the Home Equity Conversion Mortgage Program Requirements:  
Financial Assessments—Solicitation of Comment; Notice

**DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT**

[Docket No. FR-5735-N-01]

**Changes to the Home Equity  
Conversion Mortgage Program  
Requirements: Financial  
Assessments—Solicitation of  
Comment**

**AGENCY:** Office of the Assistant Secretary for Housing-Federal Housing Commissioner, HUD.

**ACTION:** Notice.

**SUMMARY:** On September 3, 2013, the Federal Housing Administration (FHA) issued Mortgagee Letter 2013-27, announcing the implementation of several changes to the Home Equity Conversion Mortgage (HECM) program, consistent with the authority to make such changes by the Reverse Mortgage Stabilization Act, signed into law on August 9, 2013. With the exception of new financial assessment requirements and funding requirements for the payment of property charges, the new HECM requirements will take effect for case numbers assigned on or after September 30, 2013. The financial assessment requirements and the funding requirements for payment of property charges take effect for case numbers assigned on or after January 13, 2014. This notice solicits comment for a period of 30 days on the financial assessment requirements to be applied on or after January 13, 2014.

**DATES:** *Comment Due Date:* October 15, 2013.

**ADDRESSES:** Interested persons are invited to submit comments regarding this notice to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street SW., Room 10276, Washington, DC 20410-0500. Communications must refer to the above docket number and title. There are two methods for submitting public comments. All submissions must refer to the above docket number and title.

1. *Submission of Comments by Mail.* Comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street SW., Room 10276, Washington, DC 20410-0500.

2. *Electronic Submission of Comments.* Interested persons may submit comments electronically through the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov). HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the

commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make them immediately available to the public. Comments submitted electronically through the [www.regulations.gov](http://www.regulations.gov) Web site can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that site to submit comments electronically.

**Note:** To receive consideration as public comments, comments must be submitted through one of the two methods specified above. Again, all submissions must refer to the docket number and title of the notice.

*No Facsimile Comments.* Facsimile (FAX) comments are not acceptable.

*Public Inspection of Public Comments.* All properly submitted comments and communications submitted to HUD will be available for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the above address. Due to security measures at the HUD Headquarters building, an appointment to review the public comments must be scheduled in advance by calling the Regulations Division at 202-708-3055 (this is not a toll-free number). Individuals with speech or hearing impairments may access this number via TTY by calling the Federal Relay Service at 800-877-8339. Copies of all comments submitted are available for inspection and downloading at [www.regulations.gov](http://www.regulations.gov).

**FOR FURTHER INFORMATION CONTACT:** Karin Hill, Director, Single Family Housing Development, Office of Housing, Department of Housing and Urban Development, 451 7th Street SW., Room 9280, Washington, DC 20410-9000, telephone number 202-708-4308. (This is not a toll-free number). Hearing or speech impaired individuals may access this number via TTY by calling the toll-free Federal Relay Service during business hours at 1-800-877-8337.

**SUPPLEMENTARY INFORMATION:** On August 9, 2013, the President signed into law the Reverse Mortgage Stabilization Act of 2013 (Pub. L. 113-29). This new law gives FHA the authority to establish, by notice or mortgagee letter, any additional or alternative requirements that the Secretary, in the Secretary's discretion, determines are necessary to improve the fiscal safety and soundness of the HECM program authorized by section 255 of the National Housing Act, which requirements shall take effect upon issuance.

Since the 2009 housing and economic recession, the HECM portfolio has experienced major mortgage

demographic and behavioral changes that have contributed to additional risks to the FHA Mutual Mortgage Insurance Fund (MMIF). Some of the changes include shifting from a predominately adjustable interest rate mortgage with mortgagors electing to receive payments over time using the line of credit or modified tenure/term payment options to a fixed interest rate mortgage where mortgagors draw down all funds at the time of closing; younger mortgagors with higher amounts of property indebtedness; stagnant house prices; and increasing property charge defaults. These and other factors have caused higher payouts of insurance claims. Many of these changes are highlighted in the June 28, 2012, "Reverse Mortgages Report to Congress" that was published by the Consumer Financial Protection Bureau.<sup>1</sup> The specific issues facing the HECM program were highlighted in the Annual Report to Congress on the Fiscal Year 2012 Financial Status of the FHA Mutual Mortgage Insurance Fund, issued November 16, 2012. This report highlighted the need for FHA to act quickly to reverse the high rate of defaults and claims in the HECM program.<sup>2</sup> Recognizing FHA's need to act quickly, Congress passed the Reverse Mortgage Stabilization Act of 2013, giving FHA the authority to quickly set in place changes to improve the fiscal safety and soundness of the HECM program. Acting on this authority, on September 3, 2013, FHA issued Mortgagee Letter 2013-27.<sup>3</sup> The changes being made to the HECM program by Mortgagee Letter 2013-27 are listed on the second page of the mortgagee letter and discussed in more detail throughout the mortgagee letter.

To help inform a future rule on changes to the HECM program, this notice solicits comment on the financial assessment component of the mortgagee letter, including the benefits and costs involved with the financial assessment. The purpose of the financial assessment is to evaluate mortgagors' willingness and capacity to meet their financial obligations, and their ability to comply with the mortgage requirements. The financial assessment is also used to determine whether, and under what conditions, the prospective mortgagor meets FHA eligibility criteria. An

<sup>1</sup> This report is available at <http://www.consumerfinance.gov/reports/reverse-mortgages-report/>.

<sup>2</sup> This report is available at [http://portal.hud.gov/hudportal/HUD?src=/press/press\\_releases\\_media\\_advisories/2012/HUDNo.12-171](http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2012/HUDNo.12-171).

<sup>3</sup> The Mortgagee Letter can be found at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/letters/mortgagee](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee).

increasing number of tax and hazard insurance defaults by mortgagors have heightened the need for an assessment of a potential mortgagor's financial capacity and willingness to comply with mortgage provisions. Accordingly, the mortgagee letter requires FHA-approved lenders to perform a financial assessment of all prospective mortgagors on all HECM transactions types, i.e., traditional, refinance, and purchase. Key components of underwriting HECM

transactions include a credit history analysis, a cash flow/residual income analysis, an analysis of compensating factors and extenuating circumstances and ultimately a determination of whether the HECM applicant is eligible for the loan. This financial assessment requirement will become effective January 13, 2014.

While the financial assessment component will be part of FHA's upcoming proposed rule on HECM,

FHA solicits comment in advance of the proposed rule. Comments submitted in response to this solicitation will be taken into consideration in the development of the proposed rule.

Dated: September 6, 2013.

**Carol J. Galante,**

*Assistant Secretary for Housing-Federal Housing Commissioner.*

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