

### What is the purpose of the Financial Assessment?

The mortgagee must evaluate the mortgagor's willingness and capacity to timely meet his or her financial obligations and comply with the mortgage requirements, to determine if the HECM will represent a sustainable solution to the mortgagor's financial circumstances. In conducting this financial assessment, mortgagees must take into consideration that some mortgagors seek a HECM due to financial difficulties, which may be reflected in the mortgagor's credit report and/or property charge payment history. The mortgagee must also consider to what extent the proceeds of the HECM could provide a solution to any such financial difficulties.

### When did financial assessment go into effect?

The financial assessment requirements were effective for all loans with case numbers assigned on or after April 27, 2015. HUD updated the Assessment and Property Charge Guide July 13, 2016.

### What does it mean and how does it work?

The purpose of the financial assessment is for lenders to review a borrower's financial status including income, expense, and credit history, to ensure the borrower has the willingness and financial means to continue meeting on-going obligations, such as but not limited to, property taxes, homeowner's insurance, credit card debt and household utilities. These changes were designed to help senior homeowners benefit from a reverse mortgage, while determining if borrowers meet HUD's minimum financial criteria to ensure that all of the borrower's financial obligations can be met, including the reverse mortgage obligations. For borrowers who do not meet HUD's minimum financial criteria, borrower's may still qualify by having a portion of the available proceeds set aside to cover ongoing property taxes and homeowner's insurance obligations.

### How many borrowers will be disqualified due to financial assessment?

It depends on the borrower. Financial assessment will determine the borrower's willingness and ability to meet

their ongoing financial obligations, such as but not limited to, property taxes, homeowner's insurance, credit card debt and household utilities.

### How long will the Life Expectancy Set-Aside (LESA) last?

The LESA is calculated based on the youngest borrower's life expectancy. For example, a 73-year-old borrower's life expectancy is 13 years. This means that the LESA will be calculated based on 156 months (13 years X 12 months).

### Is there a minimum FICO score required?

There is not a FICO score component. However, Financial Assessment will now require review of credit reports during the income and expense verification process. Prior to Financial Assessment, credit was pulled toward the end of the process. The newer requirements mean that a credit report will be generated earlier in the process.

### Can tenure payments be used to help with residual income? If not, are they a compensating factor?

Tenure payments are a compensating factor. Will the lender pay the property taxes and insurance directly, or will the borrower receive money from the Lender/Servicer and have to pay it themselves?

It depends. If the borrower is required to have a fully funded LESA, the lender/servicer will pay the property taxes and insurance directly on behalf of the borrower. If they qualify for a partially funded LESA, the borrower will receive semi-annual payments from the lender/servicer to be used to pay property taxes and insurance premiums.

### How much will income-to-expenses play in the financial assessment decision?

Financial assessment is for lenders to review a borrower's financial status including income, expense and credit history, to ensure the borrower has the willingness and financial means to continue meeting ongoing obligations, such as but not limited to, property taxes, homeowner's insurance, credit card debt and household utilities.

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## What additional steps do I need to take in the Portal?

Liberty updated the loan portal to help you determine if a LESA will likely be required and if so, what type of LESA will likely be required\*. There is a simple step-by-step process to follow. The intent is to give an indication of how the loan will need to be structured and what additional information may be required. \* The results are estimates based on the data entered and final figures will be determined by the Underwriter.

## If a borrower does not meet the minimum requirements, are there any exceptions that can be made?

Yes, HUD provided a list of extenuating circumstances and compensating factors that underwriters can use when making their determination, including but not limited to: Death of a spouse, emergency medical treatment and job loss. (Please see section 4 of HUD's Mortgagee Letter 14-22 for a complete list of extenuating circumstances and compensating factors).

## FA Worksheets

### Appendix 1 - Model HECM Financial Analysis Worksheet

MODEL HECM FINANCIAL ASSESSMENT WORKSHEET FHA CASE NO. _____			
MORTGAGOR NAME		MORTGAGOR NAME	
PROPERTY STREET ADDRESS		PROPERTY CITY, STATE, ZIP CODE	
<b>SECTION A: PROPERTY CHARGE PAYMENT HISTORY</b>			
PROPERTY CHARGE	CURRENT	DELINQUENT IN LAST 24 MONTHS	
REAL ESTATE TAXES	<input type="checkbox"/> YES <input type="checkbox"/> NO	<input type="checkbox"/> YES	<input type="checkbox"/> NO
OTHER ASSESSMENTS	<input type="checkbox"/> YES <input type="checkbox"/> NO	<input type="checkbox"/> YES	<input type="checkbox"/> NO
HOA/PUD/CONDO FEES	<input type="checkbox"/> YES <input type="checkbox"/> NO	<input type="checkbox"/> YES	<input type="checkbox"/> NO
HAZARD/HOMEOWNERS INSURANCE IN PLACE FOR LAST 12 MONTHS		<input type="checkbox"/> YES	<input type="checkbox"/> NO
FLOOD INSURANCE IN PLACE FOR LAST 12 MONTHS		<input type="checkbox"/> YES <input type="checkbox"/> NO	N/A
<b>SECTION B: CREDIT HISTORY</b>			
INSTALLMENT CREDIT ACCOUNT	NUMBER OF DELINQUENT PAYMENTS LAST 24 MONTHS		
	30 DAY	60 DAY	90 DAY
REVOLVING CREDIT ACCOUNT	NUMBER OF DELINQUENT PAYMENTS LAST 12 MONTHS		
	30 DAY	60 DAY	90 DAY
<b>SECTION C: ASSETS</b>			
ASSET ACCOUNT	minus	MORTGAGOR FUNDS NEEDED TO CLOSE	NET VALUE

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Model HECM Financial Assessment Worksheet

Revised March 27, 2015



### Financial Assessment Checklist

#### Financial Assessment Submission Requirements:

- ☐ 1009 stated monthly income amount must be completed & supporting income documentation provided.
- ☐ 1009 Addendum completed (Number of household, employment, all debts & real estate assets)

#### Sources of Acceptable Income:

- ☐ **Retirement Income.** Include a copy of the most recent pension/retirement letter AND one of the following documents (most recent): bank statement reflecting the pension deposit (all pages), SSA 1099, Budget/Benefits Letter, or federal tax returns (Minimum of 3 years' continuance required.)
- ☐ **Social Security Income.** Include most recent Social Security award letter along AND one of the following documents (most recent): bank statement reflecting the SSA deposit (all pages), SSA 1099, Budget/Benefits Letter, or federal tax returns.
- ☐ **VA Benefits.** Include copy of the VA letter or distribution from the Dept. of VA that contains the date on which the income will end and the most recent bank statement reflecting the VA deposit or federal tax returns.
- ☐ **Employment Income.** One month's paystubs (covering most recent 30 day period) and W-2 (2 years)
- ☐ **Self-Employment.** Copies of signed personal tax returns (most recent 2 years tax returns and must include all schedules)
- ☐ **Self-Employment.** Copies of signed business tax returns (most recent 2 years tax returns and must include all schedules; general partner form 1065 plus K1 form(s), limited partner K1 forms, sub-chapter S corporation 1120S plus the K1 forms, corporation form 1120, & year-to-date profit & loss statement, & balance sheet.
- ☐ **Rental Income.** Copy of the most recent 2 years tax returns with schedule E evidencing an established 2 year history.

#### Source of Acceptable Assets:

- ☐ **Savings & Checking Accounts.** Written verification of deposit (VOD) and most recent month statement for each account. If a VOD is not obtained, statement showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, must provide statements for the most recent two months.
- ☐ **Government Issued Bonds.** Most recent monthly or quarterly statement provided by the stock broker or financial institution managing the portfolio. (All pages must be provided & must clearly identify the borrower as the acct. holder)
- ☐ **Stocks & Bonds.** Most recent two months stock/bond statement. (All pages must be provided & must clearly identify the borrower as the acct. holder)
- ☐ **IRAs/401Ks.** Most recent IRA/401K statement.
- ☐ **Certificate of Deposit.** Most recent statement.
- ☐ **Annuities.** Most recent annuity statement evidencing continuation for 3 years and a bank statement or transaction history from the bank evidencing the receipt of the annuity.

#### Property Items for All Real Estate Owned:

- ☐ Property tax payment history covering the last 24 months prior to the initial application date.
- ☐ Copy of the current hazard insurance declaration for the subject property and all RED (must be in place a minimum of 12 months) prior to the initial application date.
- ☐ Copy of the current flood insurance declaration for the subject property and all RED (must be in place a minimum of 12 months) prior to the initial application date. (Properties located in a flood zone)
- ☐ HOA payment history evidencing due date and paid date covering the last 24 months prior to the application date is included for the subject property and all RED. (If the property is in a HOA)
- ☐ Ground Rents. (Must provide written statement documenting payment history from the lessor or its management agent or copies of bills & cancelled checks)

#### Credit Report:

- ☐ Review of the credit report and document all liabilities/debts and complete on the 1009 Addendum accurately.
- ☐ Review of the credit report and obtain a written explanation for inquiries shown on the credit report for the last 90 days.
- ☐ LSE for any derogatory credit on the credit report



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