

Financial Assessment requirements apply to all loans with case numbers assigned on or after April 27, 2015. The purpose of the financial assessment is for lenders to review a borrower's financial status including income, expenses 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, home owner's insurance, credit card debt and household utilities. These changes are 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, borrowers may still qualify by having a portion of the available proceeds set-aside to cover ongoing property taxes and homeowner's insurance obligations.

## Credit Reports

Financial Assessment requires 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.

## What Triggers a Life Expectancy Set-Aside (LESA) Requirement?

Factors an Underwriter may use to determine a LESA is required, include, but are not limited to:

- Derogatory Credit
- Insufficient Residual Income
- Monthly Property Charges Exceed 10% of Monthly Income
- Underwriter Overall Analysis

## Derogatory Credit

All Underwriters must perform a credit history and property charge payment analysis. Examples of derogatory credit include, but are not limited to:

- One 30-day or more late housing and/or installment payment for last 12 months
- Three 30-day late mortgage or installment payments in the previous 24 months; and
- One 90-day late payment for revolving accounts in previous 12 months
- Three or more 60-day late payments for revolving accounts in the previous 12 months

## Extenuating Circumstances

If a borrower's derogatory credit and/or property charge delinquency was due to extenuating circumstances, a LESA may not be required. Underwriters will review and document any extenuating circumstance that addresses derogatory credit and/or property charges to determine that a LESA is not required. Extenuating circumstances beyond the borrower's control may include, but are not limited to: death of a spouse, medical emergency, or job loss. If derogatory credit exists and no extenuating circumstances are present, a fully-funded LESA is required.

## Income

Income from any and all sources listed in ML 14-22 must be calculated and documented for all HECM borrowers to the extent needed to determine that the residual income meets the HECM requirements. Income sources include, but are not limited to: employment income, self-employment income, retirement income, social security income, VA benefits, and rental income.

## Residual Income

An additional analysis used in determining if a LESA is required is residual income. It is used to determine the borrower's capacity to meet their financial obligations. Residual income is the sum of a borrower's income minus their expenses. The amount of the residual income must be equal to or higher than the minimum requirements as set by HUD. HUD does take into account where the borrower lives and how many people live in the house.

### If a LESA is Required, there are Two Options:

1. **Fully Funded LESA:** Lender (servicer) will pay property taxes and homeowner's insurance on behalf of the borrower. A fully funded LESA is available for both Fixed and Adjustable Rate Loans. The borrower is responsible for all other property charges.
2. **Partially Funded LESA:** Borrower will receive semi-annual payments from lender (servicer) to be used to pay property taxes and insurance premiums. A partially funded LESA is only available for Adjustable Rate loans. Borrower is responsible for timely payments of all property charges.

If the Underwriter determines the borrower has demonstrated a willingness but not the capacity to meet financial obligations, a partially funded LESA may be required.

### Compensating Factors

If a borrower does not meet the residual income requirements, compensating factors may be documented to avoid a LESA in certain circumstances, including but not limited to: Borrower has at least 80% of the residual income, have directly paid property charges (no escrow) in the last 24 months and no property charge late penalties; Documented residual income from non-borrowing spouse that, if counted would result in passing residual income requirement; Pension or Social Security income starting within next 12 months and that income would pass the residual income requirement.

### Expenses

All borrower monthly liabilities must be included in the expenses analysis. Underwriters will use the credit report and all other documentation to determine total expenses.

### Liberty's PORTAL

Liberty's PORTAL includes a Financial Assessment Worksheet which will be updated to help you identify whether a set-aside may be required.



To learn more, contact:

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