

HECM Financial Assessment

The **HECM Financial Assessment** function on the FHA Connection (FHAC) allows a lender to evaluate the ability of the borrower(s) to meet their financial obligations in a timely manner and comply with HUD's Home Equity Conversion Mortgage (HECM) requirements. Over time, the collected HECM information will provide FHA with the ability to analyze different aspects of the financial assessment and impact on loan performance.

FHA Connection
Home | Main Menu | ID Maintenance | E-mail Us | Contact Us | Sign Off

Single Family FHA > Single Family Origination > Case Processing > HECM Financial Assessment

HECM Financial Assessment Update

Help Links ?
Other Functions

Property Address:
123 HAPPY DR
SUN CITY CENTER, FL 33573-0000

FHA Case Number: 123-1234567

Last Action:
ID: H12345
Date: Nov 6, 2017

Credit Characteristics

Real Estate Taxes Current	Yes	Real Estate Taxes Delinquent Last 24 Months	No
HOA, PUD, Condo Fees Current	N/A	HOA, PUD, Condo Fees Delinquent Last 24 Months	N/A
Real Estate Debt Current	N/A	Real Estate Debt No Lates in Last 12 Months < 3 30 Day Lates in Last 24 Months	N/A
Other Installment Debt Current (Non-Real Estate)	Yes	Other Installment Debt No Lates in Last 12 Months < 3 30 Day Lates in Last 24 Months	Yes
Revolving Debt Current	N/A	Revolving Debt No 90 Day Lates < 3 60 Day Lates in Last 12 Months	N/A

Monthly Effective Income

Imputed Monthly Income from Dissipation of Assets	1000.00	
Monthly Income from All Other Sources	+ 500.00	
Total Monthly Income:		+ 1500.00

Monthly Expenses

Real Estate Debt Monthly Payments	100.00	
Non-Real Estate Debt Monthly Payments	50.00	
Other Monthly Expense Payments	50.00	
Total Monthly Expense Payments:		200.00

Monthly Property Charges

Monthly Real Estate Taxes	400.00	
Monthly Hazard Insurance	50.00	
Monthly Flood Insurance	50.00	
Monthly Property Charges Subtotal:		500.00
Monthly HOA, PUD, Condo Fees	0.00	
Monthly Other Property Charges	25.00	
Total Monthly Property Charges:		525.00

Projected Life Expectancy Property Charges

Monthly Property Charges Subtotal x 1.2	600.00	
TALC Life Expectancy (in Months)	156	
Expected Rate	6.175	
Compounding Rate (Expected Rate + Annual MIP Rate)	6.675	
Projected Life Expectancy Property Charge		62400.00

Monthly Residual Income

Family Size	2	
Residual Income Standard	886	
Total Monthly Income		+ 1500.00
Total Monthly Expense Payments	200.00	
Total Monthly Property Charges	525.00	
Residual Income:		+ 775.00
Residual Income Standard	886	
Residual Income		+ 775.00
Monthly Residual Income Shortfall:		111.00

Compensating Factors

Property Charge Payment History	<input type="checkbox"/>	Non-Borrowing Spouse Income	0.00
Access to Other Credit	<input type="checkbox"/>	Overtime, Seasonal, Part-time, Bonus and/or Tip Income	4500.00
Assets Equal to Life Expectancy Property Charges	<input type="checkbox"/>	Expected SSI or Pension Income	0.00
HECM Sufficient to Pay off Debts	<input type="checkbox"/>	Imputed Income from HECM	0.00

Life Expectancy Set Aside Requirement

Requirement: Required - Partially Funded	Amount: 32000.00
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Send
Reset
New Request

Figure 1: HECM Financial Assessment Update page

Updated: 12/2017


HECM Financial Assessment - 1

This **FHA Connection Guide** module provides the following sections to assist you in completing **HECM Financial Assessment**:

- **Available Reference Information**
- **Basic Prerequisites and Requirements**
- **HECM Financial Assessment Processing**
 - **Key Steps in Using HECM Financial Assessment**
 - **HECM Financial Assessment Processing (by Page Section)**

Available Reference Information

Reference information to help in completing the page is available using any combination of the detailed resources listed below:

1. Click **Help Links**  in the upper right of the HECM Financial Assessment page. Select from the Help menu options for detailed information. Especially useful in completing the HECM Financial page are:
 - **Steps for Processing** which explains how to enter information in each page section.
 - **Field Descriptions** which describe each field and its contents.

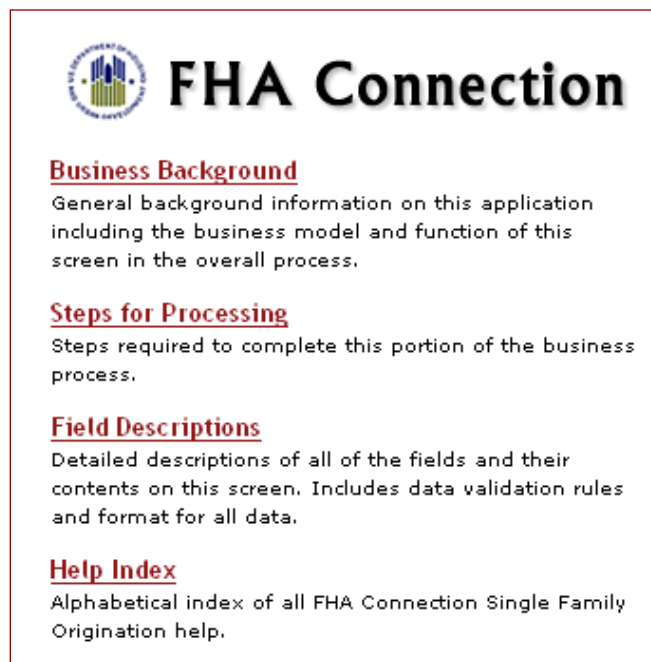


Figure 2: FHA Connection Help pop-up menu

2. Refer to the below listed mortgagee letters and attached reference documents for additional guidance when completing **HECM Financial Assessment**:
 - Mortgagee Letter 2016-10, *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 (with attached HECM Financial Assessment and Property Charge Guide)*
 - Mortgagee Letter 2015-09, *Home Equity Conversion Mortgage (HECM) Program – Life Expectancy Set-Aside Growth Rate and Clarification to Section 3.98 of the HECM Financial Assessment and Property Charge Guide*
 - Mortgagee Letter 2014-22, *Home Equity Conversion Mortgage (HECM) Financial Assessment and Property Charge Requirements*

- Mortgagee Letter 2014-21, Revised Changes to the Home Equity Conversion Mortgage (HECM) Program Requirements,

Mortgagee letters are accessed by selecting the Mortgagee Letters link in the:

- footer on FHA Connection pages (*before or after sign on*) (**Figure 3**) and following the links to the specific letter, or,
- **FHA Connection Resources** section on the **FHA Connection Main Menu** (**Figure 4**).

Click to retrieve Mortgagee Letters

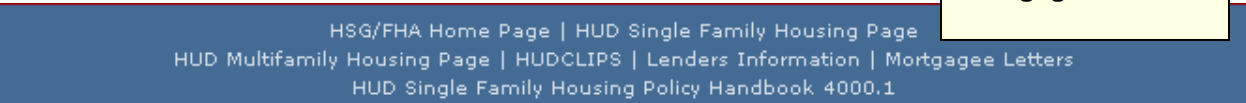


Figure 3: Link to Mortgagee Letters in FHA Connection footer

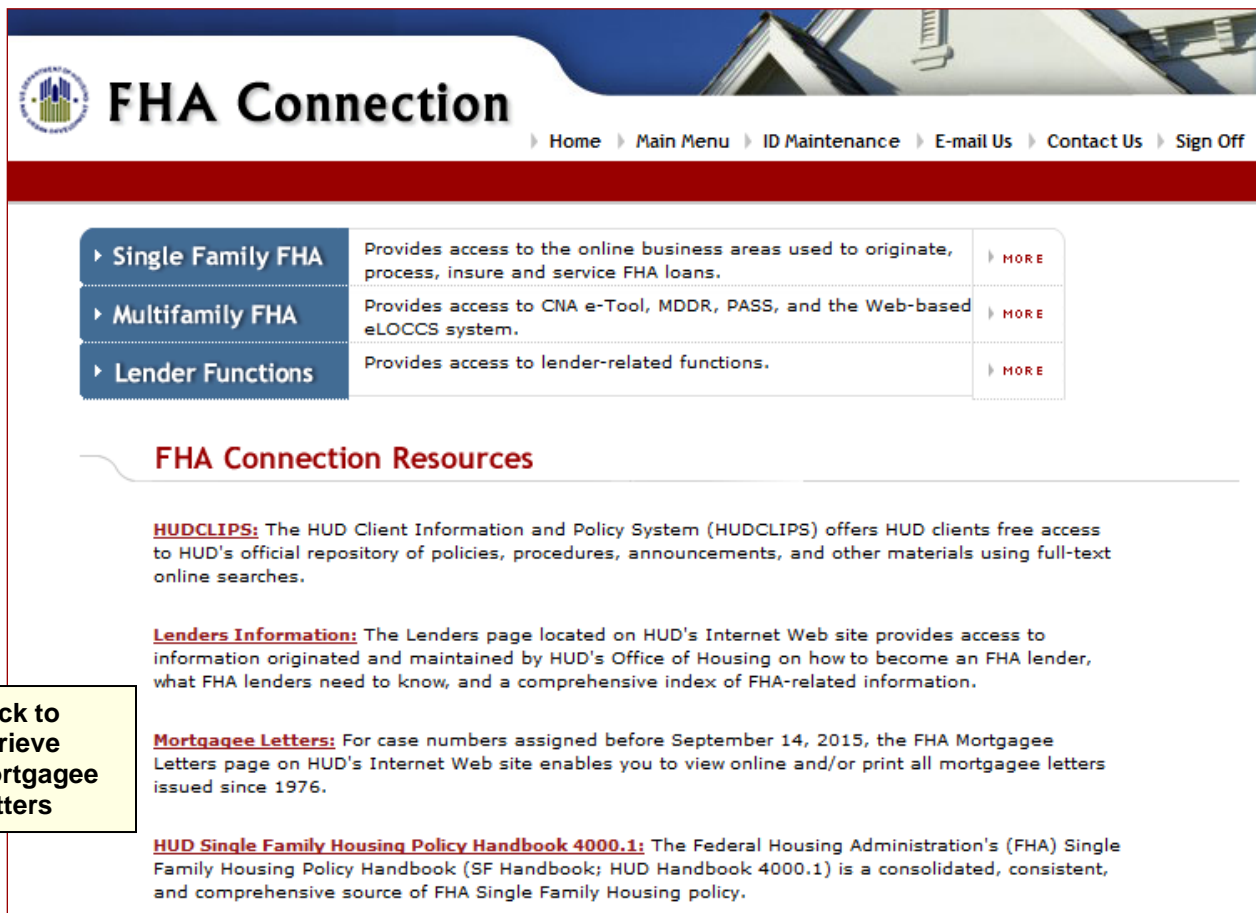


Figure 4: Link to Mortgagee Letters on the FHA Connection Main Menu page

Basic Prerequisites and Requirements

Prior to working on **HECM Financial Assessment**, you should:

1. Have FHA Connection add/update or greater authorization for **Insurance Application** in order to enter **HECM Financial Assessment** data. For those with query-only authorization, you may only view the HECM Financial Assessment page information—no changes allowed.
2. Establish a case in HUD's origination system. For information on establishing a case, see the **FHA Connection Guide** modules: **Case Processing Overview** and **Case Number Assignment**.

Note: If the case number assignment date is prior to April 27, 2015, then **HECM Financial Assessment** is *not* required.

3. Complete the **Model HECM Financial Analysis Worksheet** (see Attachment of the **HECM Financial Assessment and Property Charge Guide**, ML-2016-10) or your financial institution's own comparable financial analysis document.

Note: **Appraisal Logging** can be completed before or after **HECM Financial Assessment**; however, both must be completed before entering information in **HECM Insurance Application**.

HECM Financial Assessment Processing (by Page Section)

This section begins with the basic steps for processing the FHA Connection's **HECM Financial Assessment**, followed by an illustration and helpful tips for completing each page section.

HECM Financial Assessment must be completed prior to HECM insurance processing and is required for all HECM cases with a case number assigned on or after April 27, 2015. After a case is endorsed for HECM insurance, the financial assessment information is view only.

Key Steps in Using HECM Financial Assessment on the FHA Connection

Follow these basic steps to process **HECM Financial Assessment**.

1. Access **HECM Financial Assessment** after sign on by following the menu path: **Single Family FHA > Single Family Origination > Case Processing > HECM Financial Assessment**. The FHA Connection menu path appears as a "breadcrumb" trail in the red banner at the top of each function page.
2. On the HECM Financial Assessment page (**Figure 5**), enter the case number in the **FHA Case Number** field.

Figure 5: HECM Financial Assessment page

3. Successful entry of the case number opens the HECM Financial Assessment Update page (**Figure 1**) to enter or update financial assessment information associated with the case.
4. To assist you with processing **HECM Financial Assessment**, refer to the following sections of this module: **Credit Characteristics, Monthly Effective Income, and Monthly Expenses; Monthly Property Charges; Projected Life Expectancy Property Charges; Monthly Residual Income and Compensating Factors; and Life Expectancy Set Aside Factor**.

Credit Characteristics

The **Credit Characteristics** section of the HECM Financial Assessment Update page appears in **Figure 6**, followed by information pertaining to completing this page section.

FHA Connection
 Home > Main Menu > ID Maintenance > E-mail Us > Contact Us > Sign Off
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Single Family FHA | Single Family Origination > Case Processing > HECM Financial Assessment

HECM Financial Assessment Update

FHA Case Number: 123-1234567

Property Address:
 123 HAPPY DR
 SUN CITY CENTER, FL 33573-0000

Last Action:
 ID: H12345
 Date: Feb 10, 2015

Credit Characteristics	
Real Estate Taxes Current	N/A
HOA, PUD, Condo Fees Current	N/A
Real Estate Debt Current	N/A
Other Installment Debt Current (Non-Real Estate)	N/A
Revolving Debt Current	N/A
Real Estate Taxes Delinquent Last 24 Months	N/A
HOA, PUD, Condo Fees Delinquent Last 24 Months	N/A
Real Estate Debt - No Lates in Last 12 Months < 3 30 Day Lates in Last 24 Months	N/A
Other Installment Debt - No Lates in Last 12 Months < 3 30 Day Lates in Last 24 Months	N/A
Revolving Debt - No 90 Day Lates < 3 60 Day Lates in Last 12 Months	N/A

Select Yes, No, N/A from the drop-down list beside each credit-related question

Figure 6: Credit Characteristics page section

Questions in the left column correspond to the questions in the direct opposite column, providing more payment/credit-related information about the borrower(s). Refer to HUD's **HECM Financial Analysis Worksheet** (Sections A and B) and **Fannie Mae form 1009** (Section VI) to assist you in answering these questions.

Notes:

- The **Real Estate Debt - No Lates in Last 12 Months < 3 30 Day Lates in Last 24 Months** and **Other Installment Debt - No Lates in Last 12 Months < 3 30 Day Lates in Last 24 Months** fields specify whether there were *no* late payments in the last 12 months and less than three 30-day late payments in the last 24 months.
- The **Revolving Debt - No 90 Day Lates < 3 60 Day Lates in Last 12 Months** field specifies whether there were *no* 90-day late payments and less than three 60-day late payments in the last 12 months.

Monthly Effective Income, Monthly Expenses, and Monthly Property Charges

The **Monthly Effective Income**, **Monthly Expenses**, and **Monthly Property Charges** sections of the HECM Financial Assessment Update page appear in **Figure 7**, followed by guidance on completing these page sections.

HECM Financial Assessment Update

Help Links ?
Other Functions

FHA Case Number: 123-1234567

Property Address:
123 HAPPY DR
SUN CITY CENTER, FL 33573-0000

Credit Characteristics

<p>Real Estate Taxes Current Yes ▾</p> <p>HOA, PUD, Condo Fees Current N/A ▾</p> <p>Real Estate Debt Current N/A ▾</p> <p>Other Installment Debt Current (Non-Real Estate) Yes ▾</p>	<p>Real Estate Taxes Delinquent Last 24 Months No ▾</p> <p>HOA, PUD, Condo Fees Delinquent Last 24 Months N/A ▾</p> <p>Real Estate Debt No Lates in Last 12 Months N/A ▾ < 3 30 Day Lates in Last 24 Months</p> <p>Other Installment Debt No Lates in Last 12 Months Yes ▾ < 3 30 Day Lates in Last 24 Months</p> <p>Revolving Debt No 90 Day Lates N/A ▾ < 3 60 Day Lates in Last 12 Months</p>
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System checks the entered totals only when the page is processed

Monthly Effective Income

Imputed Monthly Income from Dissipation of Assets	1000.00
Monthly Income from All Other Sources	+ 500.00
Total Monthly Income:	- 1500.00

Enter each amount in these page sections

Monthly Expenses

Real Estate Debt Monthly Payments	100.00
Non-Real Estate Debt Monthly Payments	50.00
Other Monthly Expense Payments	50.00
Total Monthly Expense Payments:	200.00

Total Monthly Income must equal the sum of the previous two fields

Total Monthly Expense Payments must equal the sum of the previous three fields

Monthly Property Charges

Monthly Real Estate Taxes	400.00
Monthly Hazard Insurance	50.00
Monthly Flood Insurance	50.00
Monthly Property Charges Subtotal:	500.00
Monthly HOA, PUD, Condo Fees	0.00
Monthly Other Property Charges	25.00
Total Monthly Property Charges:	525.00

Monthly Property Charges Subtotal must equal the sum of the previous three fields

Total Monthly Property Charges is the sum of: Monthly Property Charges Subtotal plus Monthly HOA, PUD, Condo Fees plus

When entering dollar amounts on this page, enter dollars and cents with but do not enter a dollar sign. If the amount is zero, you *cannot* leave the (the system reformats the field entry to 0.00 when the page is processed).

The amounts entered in the total and/or subtotal fields in these page sections must equal the sum of the amounts in the respective fields. Refer to the **HECM Financial Analysis Worksheet** (Sections D, F, and H) and **Fannie Mae form 1009** (Sections III and IV) for the field information.

Page totals and subtotals are checked by the system only upon processing the page—not while entering the page information. During data entry, the system also carries forward designated total fields to the **Monthly Residual Income** page section as shown in **Figure 8**.

Monthly Effective Income	
Imputed Monthly Income from Dissipation of Assets	1000.00
Monthly Income from All Other Sources	<input checked="" type="radio"/> + 500.00 <input type="radio"/> -
Total Monthly Income:	<input checked="" type="radio"/> + 1500.00 <input type="radio"/> -

Monthly Expenses	
Real Estate Debt Monthly Payments	100.00
Non-Real Estate Debt Monthly Payments	50.00
Other Monthly Expense Payments	50.00
Total Monthly Expense Payments:	200.00

Monthly Property Charges	
Monthly Real Estate Taxes	400.00
Monthly Hazard Insurance	50.00
Monthly Flood Insurance	50.00
Monthly Property Charges Subtotal:	500.00
Monthly HOA, PUD, Condo Fees	0.00
Monthly Other Property Charges	25.00
Total Monthly Property Charges:	525.00

Amounts entered in the Total Monthly Income, Total Monthly Expense Payments, and Total Monthly Property Charges fields are brought forward by the system to the same fields in the Monthly Residual Income page section (*below*).

Edits to the total amounts must be made in the page section where the amount was originally entered.

Monthly Residual Income	
Family Size	Select Family Size ▾
Residual Income Standard	
Total Monthly Income	<input checked="" type="radio"/> + 1500.00 <input type="radio"/> -
Total Monthly Expense Payments	200.00
Total Monthly Property Charges	525.00
Residual Income:	<input checked="" type="radio"/> + <input type="radio"/> -
Residual Income Standard	
Residual Income	<input checked="" type="radio"/> + <input type="radio"/> -
Monthly Residual Income Shortfall:	

Figure 8: Monthly Effective Income, Monthly Expenses, Monthly Property Charges, and Monthly Residual Income page sections

Projected Life Expectancy Property Charges

The **Projected Life Expectancy Property Charges** page section of the HECM Financial Assessment Update page appear in **Figure 9**, followed by some processing tips for this page section.

Monthly Property Charges	
Monthly Real Estate Taxes	400.00
Monthly Hazard Insurance	50.00
Monthly Flood Insurance	50.00
Monthly Property Charges Subtotal:	500.00
Monthly HOA, PUD, Condo Fees	0.00
Monthly Other Property Charges	25.00
Total Monthly Property Charges:	525.00
Projected Life Expectancy Property Charges	
Monthly Property Charges Subtotal x 1.2	600.00
TALC Life Expectancy (in Months)	156
Expected Rate	6.175
Compounding Rate (Expected Rate + Annual MIP Rate)	6.675
Projected Life Expectancy Property Charge	62400.00

Figure 9: Monthly Property Charges and Projected Life Expectancy Property Charges page sections

This page section is comprised of several calculations. Below is a summary of each field calculation required for this page section:

- Monthly Property Charges Subtotal X 1.2:** This is the result of multiplying the amount entered in the **Monthly Property Charges Subtotal** field (located in the **Monthly Property Charges** page section) by 1.2. When entering the amount, do *not* round up or down. (Example: if the result is 123.456, enter 123.45; or, if the result is 123.442, enter 123.44.) This field must be greater than zero.
- TALC Life Expectancy (in Month):** Use the **HECM Financial Assessment Worksheet, Appendix 2** to determine the life expectancy of the youngest borrower in years. Then, multiply that amount by 12 which will give you the expected life expectancy of the youngest borrower in months. Example: Life expectancy for a 72 year old borrower is 13 years according to HUD's reference document. Multiply 13 years by 12 months which equals 156 months. 156 is the life expectancy of a 72 year old borrower in months in accordance with HUD's calculations.
- Compounding Rate (Expected Rate + Annual MIP Rate):** This is the sum of adding the annual mortgage insurance premium rate to the amount entered in the **Expected Rate** field. Do not enter a percent (%) sign, only digits and a decimal point are permitted in this field.
- Projected Life Expectancy Property Charge:** Use HUD's *Projected Life Expectancy Property Charge Cost* formula to determine this field. Refer to the **HECM Financial Assessment and Property Charge Guide** (Sections 5.2 and 5.3) for information on this formula and completing this field calculation.

Monthly Residual Income and Compensating Factors

The **Monthly Residual Income** and **Compensating Factors** page sections of the HECM Financial Assessment Update page appear in **Figure 10**, followed by guidance on completing these two page sections.

Monthly Residual Income	
Family Size	2
Residual Income Standard	998
Total Monthly Income	+ 1500.00
Total Monthly Expense Payments	200.00
Total Monthly Property Charges	525.00
Residual Income:	+ 775.00
Residual Income Standard	998
Residual Income	+ 775.00
Monthly Residual Income Shortfall: 223.00	
Compensating Factors	
Property Charge Payment History	<input type="checkbox"/>
Access to Other Credit	<input type="checkbox"/>
Assets Equal to Life Expectancy Property Charges	<input type="checkbox"/>
HECM Sufficient to Pay off Debts	<input type="checkbox"/>
Non-Borrowing Spouse Income	<input type="checkbox"/> 0.00
Overtime, Seasonal, Part-time or Bonus Income	<input checked="" type="checkbox"/> 4500.00
Expected SSI or Pension Income	<input type="checkbox"/> 0.00
Imputed Income from HECM	<input type="checkbox"/> 0.00
Life Expectancy Set Aside Requirement	
Requirement:	Required - Partially Funded
Amount:	32000.00

Enter amount as a whole number (*no decimal point or cents*)

Residual Income is the difference between the three preceding fields (calculated in the order displayed)

Monthly Residual Income Shortfall is the difference between the two preceding fields

Figure 10: Monthly Residual Income and Compensating Factors page sections

These two page sections are comprised of several calculations, field totals brought forward by the system, and a listing of compensating factors and amounts that may apply to the borrower(s). Below are some helpful tips in completing these two page sections:

- **Family Size:** Select the number from the drop-down box. If the family size number meets or exceeds four, select 4 (*indicates 4 or more*). **Family Size** must be at least 2 if the **Non-Borrowing Spouse Income** compensating factor is selected.
- **Residual Income Standard:** Pertains to the borrower's family size (**Family Size** field) and the actual property's geographic region. Refer to the **HECM Financial Assessment and Property Charge Guide** and use the Table of Residual Income in Section 3.100 to locate this regional standard. The maximum amount allowed is \$1,160. Enter the amount as a whole number with no decimal point or cents.
- **Total Monthly Income, Total Monthly Expense Payments,** and **Total Monthly Property Charges** fields are prefilled by the system from the other page sections.
- **Residual Income:** This is the difference of **Total Monthly Income** minus **Total Monthly Expense Payments** minus **Total Monthly Property Charges**. Select + or – to specify whether the amount is a positive or negative dollar amount.
- **Monthly Residual Income Shortfall:** This is the difference of **Residual Income Standard** minus **Residual Income** (*the two preceding fields*). If this amount is a positive number, e.g., $998 - 775 = 223$, enter that whole amount. If the amount is zero (0) or a negative number, $825 - 849 = -24$, then leave the field blank--do *not* enter a zero (0). Select + or – to specify whether the amount is a positive or negative dollar amount.
- **Compensating Factors section:** Click the box and enter amount, *if applicable*, beside each factor relevant to the borrower's situation (see the **HECM Financial Analysis Worksheet** (Section L) for guidance).

Life Expectancy Set Aside Requirement

The **Life Expectancy Set Aside Requirement** section of the HECM Financial Assessment Update page appears in **Figure 11**, followed by information pertaining to this page section.

Life Expectancy Set Aside Requirement

Requirement: Required - Partially Funded Amount: 32000.00

Figure 11: Life Expectancy Set Aside Requirement page section

- **Requirement:** Specify the Life Expectancy Set Aside (LESA) requirement level by selecting one of the options from the drop-down list:
 - *Not Required:* No LESA required.
 - *Voluntary – Fully Funded:* LESA amount is not required but the borrower has opted to have the full amount set aside.
 - *Required – Fully Funded:* LESA amount is required and full amount must be set aside.
 - *Required – Partially Funded:* A partial LESA amount is required.

Refer to the **HECM Financial Assessment and Property Charge Guide** (Section 5) for HUD’s guidance and criteria on making this determination.

- **Amount:** Total dollar amount of the life expectancy set aside, if required or voluntary, in accordance with the designated **Requirement** option (see below for details):
 - *Not Required:* **Amount** field must be zero – do not enter anything in the **Amount** field.
 - *Voluntary – Fully Funded -or- Required – Fully Funded:* **Amount** field must equal the amount entered in the **Projected Life Expectancy Property Charge** field (located in the **Projected Life Expectancy Property Charge** page section—see **Figure 12** below).
 - *Required – Partially Funded:* A partial LESA amount is required. **Amount** field must be less than 75% of the amount entered in the **Projected Life Expectancy Property Charge** field (located in the **Projected Life Expectancy Property Charge** page section--see **Figure 12** below).

Refer to the **HECM Financial Assessment and Property Charge Guide** (Section 5) for HUD’s guidance and criteria on making this determination

Projected Life Expectancy Property Charges	
Monthly Property Charges Subtotal x 1.2	600.00
TALC Life Expectancy (in Months)	156
Expected Rate	6.175
Compounding Rate (Expected Rate + Annual MIP Rate)	6.675
Projected Life Expectancy Property Charge	62400.00

Figure 12: Projected Life Expectancy Property Charges page section

Amount field (pictured in Figure 11) is based on the selected Requirement field option (Figure 11) and the total entered in the Projected Life Expectancy Property Charge field (included in the Projected Life Expectancy Property Charges page section – pictured above)